

CITY OF FALLS CHURCH, VIRGINIA
COMPREHENSIVE ANNUAL
FINANCIAL REPORT
YEAR ENDED JUNE 30, 2004



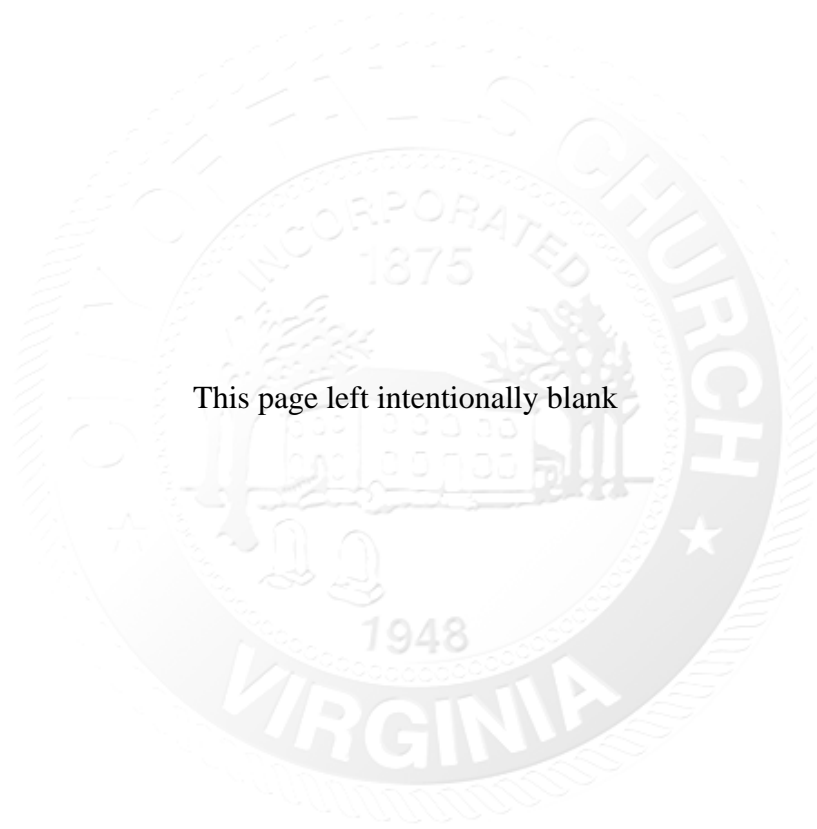
CITY OF FALLS CHURCH

**CITY OF FALLS CHURCH, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2004**



Prepared by the Department of Finance
John Tuohy, CPA, CFO/Director of Finance
Melissa Ann T. Cabacar, CPA, Deputy Director of Finance

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CITY OF FALLS CHURCH, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2004

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INTRODUCTORY SECTION





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CITY OF FALLS CHURCH

December 23, 2004

City Council
City of Falls Church
Mayor and Members of the Council

We are pleased to submit to you the Comprehensive Annual Financial Report (CAFR) of the City of Falls Church, Virginia (the City) for the fiscal year ended June 30, 2004, in accordance with the *Code of Virginia*. The financial statements included in this report conform to accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (GASB). Responsibility for the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with management. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner that presents fairly the financial position of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended. All necessary disclosures have been included to enable the reader to gain the maximum understanding of the City's financial affairs.

The letter of transmittal is traditionally addressed to the governing or legislative body. We believe that the CAFR should be management's report to constituents, oversight bodies, resource providers, investors and creditors. This letter is addressed to you and by wide circulation it is also directed to the citizens of the City of Falls Church and all other interested readers. In addition to complying with legal requirements, this letter, management's discussion and analysis (MD&A), the financial statements, supplemental data, and the statistical tables have been prepared to provide full financial disclosure.

Our CAFR is divided into three sections: introductory, financial and statistical. The introductory section includes this letter of transmittal, a list of the City's principal elected and appointed officials, and the organizational chart. The financial section includes the Independent Auditors' Report, MD&A, Basic Financial Statements, including the notes, and Required Supplementary Information. In addition, the financial section contains other supplemental data, consisting of combining, individual fund, and component unit financial statements and schedules. The statistical section contains selected financial and demographic information, generally presented on a multi-year basis. The Single Audit Report, which is required for federal grant recipients, is issued separately.

All the financial activities of the reporting entity are included within this report. As used here, the reporting entity comprises the primary government (City of Falls Church as legally defined) and its component units. Under GASB pronouncements, component units are legally separate entities for which the primary government is financially accountable. The component units of the City (the City of Falls Church Public School Board, the Falls Church Industrial Development Authority, and the Falls Church Economic Development Authority) are discretely presented component units. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the primary government and to differentiate their financial position and changes in financial position from those of the primary government.

GOVERNMENTAL STRUCTURE

The City is located in the northeastern corner of Virginia and encompasses an area of 2.2 square miles. The City is part of the Washington, D.C. metropolitan area, which includes jurisdictions in Maryland and Northern Virginia, and the District of Columbia.

The City is a municipal corporation incorporated as an independent city in 1948 under the laws of the Commonwealth of Virginia, and is not part of any county. The City operates under a Council-Manager form of government. The City Council (the Council) is comprised of seven members elected at-large for four-year staggered terms. Every two years the Council elects one member to serve as Mayor and one to serve as Vice-Mayor. The Council is responsible, among other things, for passing ordinances, adopting the budget, appointing committees, and hiring the City's manager, attorney and clerk. The Council appoints a City Manager to act as the administrative head of the City. The City Manager serves at the pleasure of the Council, carries out the policies established by the Council, and directs business and administrative procedures.

The City provides a full range of services, including police and fire protection; the construction and maintenance of highways, streets and other infrastructure; and recreational activities and cultural events. The City also provides water and sanitation services to its residents. In addition, it provides water to a portion of Fairfax County. The water and sewer functions are included as business-type activities in the City's financial statements. The City is financially accountable for the legally separate school system, which is reported as a component unit within the financial statements.

ECONOMIC CONDITION AND OUTLOOK

The information presented in the financial statements is best understood when it is considered from the broader perspective of the specific environment within which the City operates.

Local Economy

Due to its exceptional location, low office vacancy rates, and favorable lease rates, the City of Falls Church continues to thrive economically. Falls Church is located in the middle of the high growth Washington DC metropolitan area that continues to lead the Nation in job growth due primarily to increases in Federal spending, particularly in the areas of Defense and Homeland Security. In fact, during the past five years, the Washington region was the fastest-growing metropolitan area. The commercial office market in Northern Virginia continues to rebound, with an office vacancy rate of 12.8% and an average full-service lease rate of \$26.40 per square foot. The City of Falls Church has the lowest vacancy rate in the region at only 2.8% with an average full-service lease rate of \$23.45 per square foot. In addition, four mixed-use development projects have been approved in Falls Church in the last several years, totaling more than \$280 million in new investment. These projects will include more than 122,000 square feet of new class-A office space.

The residential housing market is robust and shows no signs of softening. The median sales price for single-family homes has increased 13% from 2003. Condominium values have also continued to increase significantly; the median sales price is up 47% from 2003, which reflects several high value resales in the new Broadway mixed use project. These numbers are consistent with City and regional market trends as the entire Washington DC metropolitan area has been unable to meet the demand for housing. There are new mixed-use housing developments under construction and in the planning process in the City. Once these new buildings are completed, the housing numbers are expected to continue to rise in the future.

Economic Development

Economic development activities in the City are administered with the assistance of the Falls Church Economic Development Authority (EDA). The EDA members are appointed by the City Council to assist in developing and implementing general economic development policy and objectives.

The goals of the City's economic development program are to enhance economic opportunities, spur the redevelopment of older and functionally obsolete commercial areas, nurture growth in existing businesses, recruit new

businesses, and promote regional cooperation. Once realized, the revitalization of the commercial areas and increase in local revenues will improve the quality of life for both residents and businesses.

Harry E. Wells Building • 300 Park Avenue • Falls Church, Virginia 22046-3332

Professional service firms such as physicians, attorneys, accountants, and real estate agents predominate the local economy, but the City is also home to innovative technology-oriented companies, internet-related service firms, defense contractors, governmental consultants, professional associations and local and national retailers. This diverse local economy allows the City to absorb economic shifts in a specific sector without destroying the local economy. This diversity and close proximity to both Washington DC and the Dulles High-Tech Corridor serve as a magnet for small service and high-tech businesses that desire a convenient and strategic business location.

* * * * *

Certificate of Achievement for Excellence in Financial Reporting

For the first time in the City's history, the Government Finance Officers' Association of the United States and Canada (GFOA) awarded the City a Certificate of Achievement for Excellence in Financial Reporting for the City's Comprehensive Annual Financial Report for the year ended June 30, 2003. To earn a Certificate of Achievement, a CAFR must be efficiently organized, employ standardized terminology and formatting conventions, minimize ambiguities and potentials for misleading inference, enhance understanding of current generally accepted accounting theory, and demonstrate a constructive spirit of full disclosure.

The Certificate is valid for one year only. The City believes that our current report continues to conform to the Certificate of Achievement Program requirements and standards.

Acknowledgements

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the administration department along with staff from the City Manager's office and the Communications division. We would like to express our appreciation to all members of the departments who assisted and contributed to the preparation of this report. In addition, we acknowledge the cooperation and assistance of each City department throughout the year in the efficient administration of the City's financial operations.

We would like to give special recognition to Melissa Cabacar, the City's Deputy Director of Finance, who orchestrated the City's preparation of this CAFR for submission to the Government Finance Officer's Association for participation in the Certificate of Achievement for Excellence in Financial Reporting program.

This CAFR reflects our commitment to the citizens of Falls Church, the City Council, and all interested readers of this report to provide information in conformance with the highest standards of financial reporting.

Respectfully submitted,



Daniel E. McKeever
City Manager



John H. Tuohy, CPA
Chief Financial Officer

CITY OF FALLS CHURCH, VIRGINIA DIRECTORY OF OFFICIALS

At June 30, 2004

CITY OF FALLS CHURCH, VIRGINIA CITY COUNCIL

Daniel E. Gardner, Mayor

Martha R. Meserve, Vice Mayor

Robin S. Gardner

Marlind R. Hockenberry

Samuel A. Mabry

Ronald S. Parson

David E. Snyder

CITY OFFICIALS

Daniel E. McKeever, City Manager

Shirley D. Hughes, CFO

Roy B. Thorpe, Jr., City Attorney

Kathleen C. Buschow, City Clerk

H. Robert Morrison, City Treasurer

Thomas D. Clinton, Commissioner of Revenue

S. Stephen Bittle, Sheriff

Mary Ellen Shaw, Superintendent of Schools

As of June 30, 2004





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Certificate of Achievement For Excellence in Financial Reporting

Presented to

City of Falls Church,
Virginia

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2003

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Edward H. Hwang
President

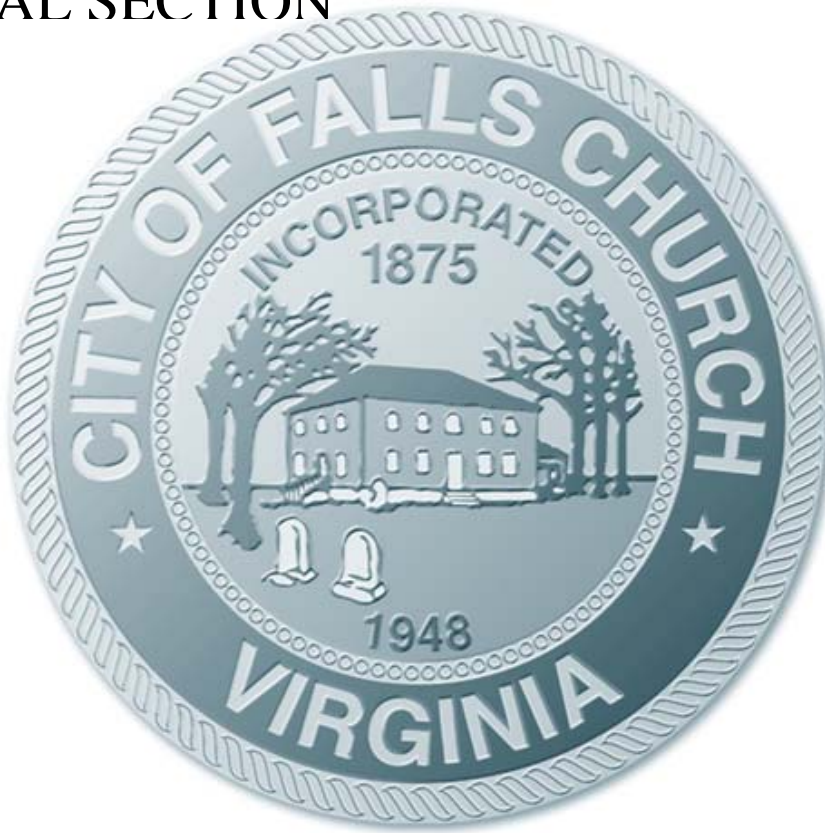
Jeffrey R. Enos
Executive Director



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CITY OF FALLS CHURCH, VIRGINIA
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FINANCIAL SECTION

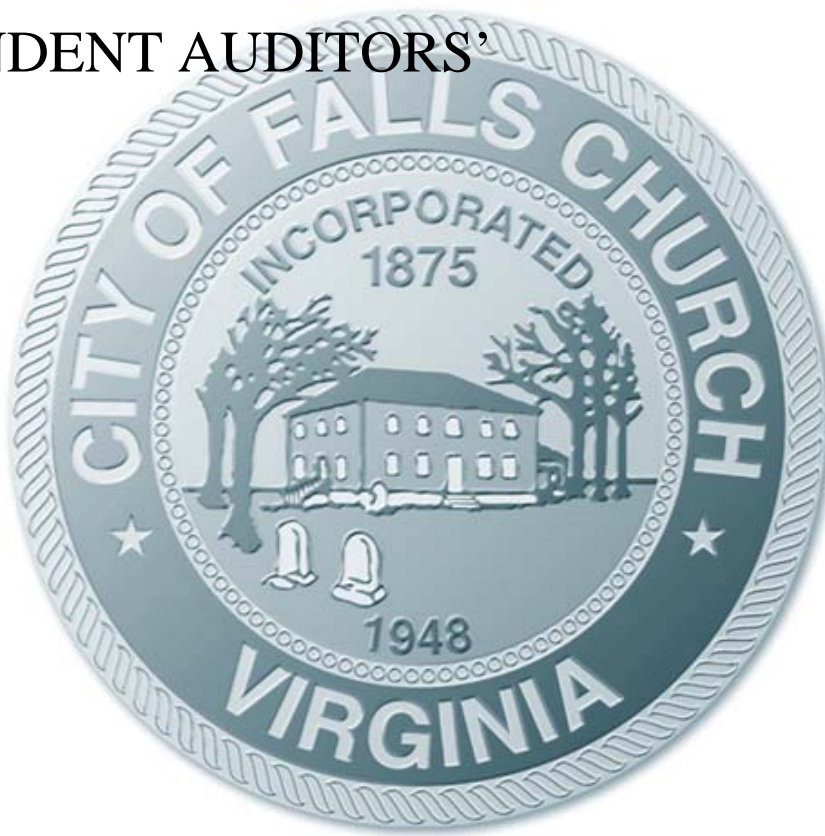




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CITY OF FALLS CHURCH, VIRGINIA
COMPREHENSIVE ANNUAL
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FOR THE FISCAL YEAR ENDED JUNE 30, 2004

INDEPENDENT AUDITORS'
REPORT







KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

To the Honorable Mayor and Members of the City Council
City of Falls Church, Virginia:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Falls Church, Virginia (the City), as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia (Specifications). Those standards and specifications require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Falls Church, Virginia, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2004 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



The management's discussion and analysis and the required supplementary information, as listed in the accompanying table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

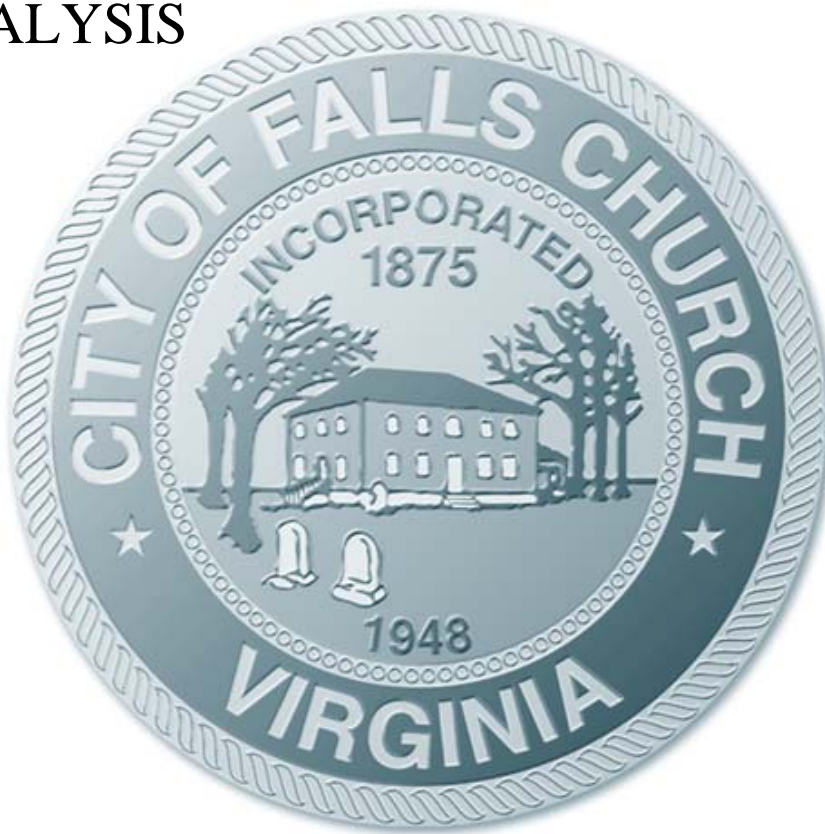
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Introductory Section, the other supplementary information in the Financial Section, and the Statistical Section, as listed in the accompanying table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplementary information in the Financial Section has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Introductory Section and the Statistical Section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

KPMG LLP

December 20, 2004

CITY OF FALLS CHURCH, VIRGINIA
COMPREHENSIVE ANNUAL
FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

MANAGEMENT'S DISCUSSION
AND ANALYSIS





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CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2004

This section of the City of Falls Church, Virginia's (the City) Comprehensive Annual Financial Report (CAFR) presents our discussion and analysis of the City's financial performance during the fiscal year that ended on June 30, 2004.

We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, and the basic financial statements and related notes, which are also contained in this CAFR.

FINANCIAL HIGHLIGHTS

Highlights for Government-wide Financial Statements

The government-wide financial statements report information about the City as a whole using the economic resources measurement focus and accrual basis of accounting.

- The City's total net assets (assets less liabilities) on a government-wide basis were \$105.6 million at June 30, 2004.
- For fiscal year 2004, taxes, other revenues and transfers from the City's business-type activities to the City's governmental activities amounted to \$48.4 million and expenses amounted to \$45.4 million, which resulted in an increase in net assets for the City's governmental activities of \$3 million. Revenues of the City's business-type activities were \$15.9 million, expenses were \$17 million, and transfers to general fund were \$4.7 million, which resulted in a decrease in net assets for the City's business-type activities of approximately \$5.8 million.

Highlights for Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds using the current financial resources measurement focus and modified accrual basis of accounting for the City's governmental funds. The City's proprietary funds, the Water and Sewer funds, are also presented in the fund financial statements but are presented using the economic resources measurement focus and the accrual basis of accounting, the same basis of accounting used to prepare the government-wide financial statements.

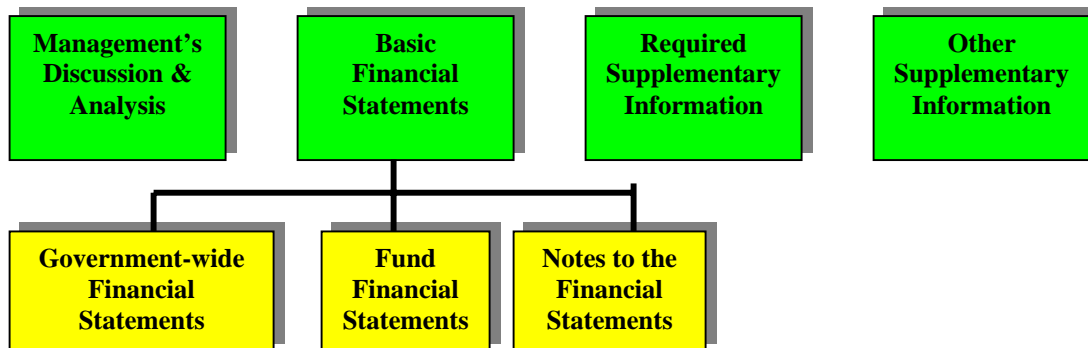
- The City's governmental funds reported revenues and other financing sources in excess of expenditures and other financing uses of \$21 million for the fiscal year.
- The City's General Fund reported a fund balance of \$13.2 million at June 30, 2004, a decrease of \$3.6 million from June 30, 2003.
- The City's Water and Sewer funds reported decreases in net assets of approximately \$5.2 million and \$600 thousand, respectively, in 2004.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of this annual report consists of four parts: (1) management's discussion and analysis (MD&A) presented here, (2) basic financial statements and related notes, (3) required supplementary information (RSI), and (4) other supplementary information.

CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2004

Components of the Financial Section



The City's basic financial statements consist of two kinds of statements, each with a different view of the City's finances. The government-wide financial statements provide both long and short-term information about the City's overall financial position. The fund financial statements focus on the individual parts of the City's government, reporting the City's operations in more detail than the government-wide financial statements. The basic financial statements also include notes to explain information in the financial statements and provide more detailed data.

The statements and notes are followed by required supplementary information that contains data pertaining to the retirement systems. In addition to these required elements, the City includes other supplementary information such as combining and individual fund statements to provide details about the fiduciary funds, capital assets, and component units.

Government-wide Financial Statements

The government-wide financial statements report information about the City as a whole using the economic resources measurement focus and the accrual basis of accounting, which are similar to those used by private-sector businesses. In addition, they report the City's net assets and how they have changed during the fiscal year.

The first government-wide statement – the *Statement of Net Assets* – presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial health of the City is improving or deteriorating. Additionally, non-financial factors, such as a change in the City's property tax base or the condition of the City facilities, should be considered to assess the overall health of the City.

The second statement – the *Statement of Activities* – presents information showing how the City's net assets changed during the fiscal year. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of when the cash is received or paid. This statement also highlights the extent to which City programs are able to cover their costs with user fees, contributions, and grants as opposed to being financed with general revenues of the City.

The government-wide financial statements are divided into three categories, as follows:

Governmental Activities – Most of the City's basic services are reported here, including education; public safety; public works; judicial administration; health and welfare services; community development; economic development; parks, recreation, and cultural programs; and general administration. These activities are financed primarily by property taxes, other local taxes, and federal and state grants. Included in the governmental activities are the governmental funds.

CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2004

Business-type Activities – The City's business-type activities (the Water and Sewer funds) are reported here.

Discretely Presented Component Units – The City includes three other entities in its financial reporting entity: City of Falls Church Public School Board (School Board), Falls Church Economic Development Authority (EDA), and the Falls Church Industrial Development Authority (IDA). Although legally separate, these component units are important because the City is financially accountable for them.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds. Fund accounting is used to keep track of the specific sources of funding and spending for particular purposes, as well as ensure and demonstrate compliance with finance-related legal requirements. The City has the following three types of funds:

Governmental Funds – Most of the City's basic services are included in governmental funds, which focus on (1) how cash, and other financial assets that can readily be converted to cash, flow in and out and (2) the year-end balances that are available for spending. The governmental funds financial statements provide a detailed short-term or "current financial resources" view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term or "economic resources" focus of the government-wide financial statements, additional information is provided with the fund financial statements to explain the relationship (or differences). The General Fund is the main operating fund of the City and consequently, the largest of the governmental funds. The only other governmental fund of the City is the capital projects fund, which is also considered a major governmental fund.

Proprietary Funds – Proprietary funds, which consist of two enterprise funds, are used to account for operations that are financed and operated in a manner similar to private business enterprises in which costs are recovered primarily through user charges. Proprietary fund financial statements, like the government-wide financial statements, provide both long and short-term financial information. The City's enterprise funds, the Water and Sewer funds, are the City's business-type activities reported in the government-wide statements. The fund financial statements provide more detail and additional information, such as cash flows, for the Water and Sewer funds.

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support City programs. The City's fiduciary funds consist of pension trust funds and agency funds. The pension trust funds are used to account for the assets held in trust by the City for the employees and beneficiaries of its defined benefit pensions plans – the Basic Pension Plan and the Police Pension Plan. The agency funds are used to account for monies received and disbursed on behalf of the Fairfax County Water Authority and the Northern Virginia Criminal Justice Academy.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

This is the second year that the City has presented its financial statements under the new reporting model required by GASB Statement No. 34. A comparative analysis of government-wide financial information is included in this report.

CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2004

Statement of Net Assets

The following table presents a summary of the net assets of the primary government as of June 30, 2004 and 2003:

Summary of Net Assets As of June 30, 2004 and 2003 (\$ In Thousands)				
	2004		2003	
	Governmental Activities	Business-Type Activities	Governmental Activities	Business-Type Activities
Assets:				
Current and other assets	\$ 65,134	\$ 26,535	\$ 36,090	\$ 37,587
Capital assets, net	41,803	47,421	36,275	44,399
Total assets	<u>106,937</u>	<u>73,956</u>	<u>72,365</u>	<u>81,986</u>
Liabilities:				
Other liabilities	28,688	2,967	18,053	5,004
Long-term liabilities	48,101	192	27,199	423
Total liabilities	<u>76,789</u>	<u>3,159</u>	<u>45,252</u>	<u>5,427</u>
Net Assets:				
Invested in capital assets, net of related debt	16,988	47,421	10,458	44,399
Unrestricted	13,160	23,376	16,655	32,160
Total net assets	<u>\$ 30,148</u>	<u>\$ 70,797</u>	<u>\$ 27,113</u>	<u>\$ 76,559</u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position.

Current assets for governmental activities increased significantly during FY2004. This is primarily the result of the issuance of \$25 million in bonds for school construction in March 2004, of which approximately \$0.2 million had been expended by year end.

Long-term liabilities for governmental activities also increased as a result of the bond issuance. In addition to the bonds issued for school construction, the City refunded approximately \$8.1 million in general obligation bonds. The refunding did not significantly reduce the bond liability, but it did result in a reduction in the interest rate the City is paying.

The investment in capital assets, net of related debt, increased for both the City's governmental activities and business-type activities during FY2004. This was partly due to the repayment of principal on debt incurred prior to FY2004 and partly due to the value of construction in progress at the new middle school. Unrestricted net assets decreased for governmental activities largely due to the use of \$5.2 million of cash for the middle school project.

Current assets and unrestricted net assets for business-type activities decreased significantly primarily due to the transfer of \$4.7 million to the General Fund and investment in capital assets of \$3 million. The increase in capital assets and the related investment in capital assets of \$3 million primarily result from the building of a new pump station and water mains.

CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2004

Statement of Activities

The following table summarizes the changes in net assets for the primary government for the years ended June 30, 2004 and 2003:

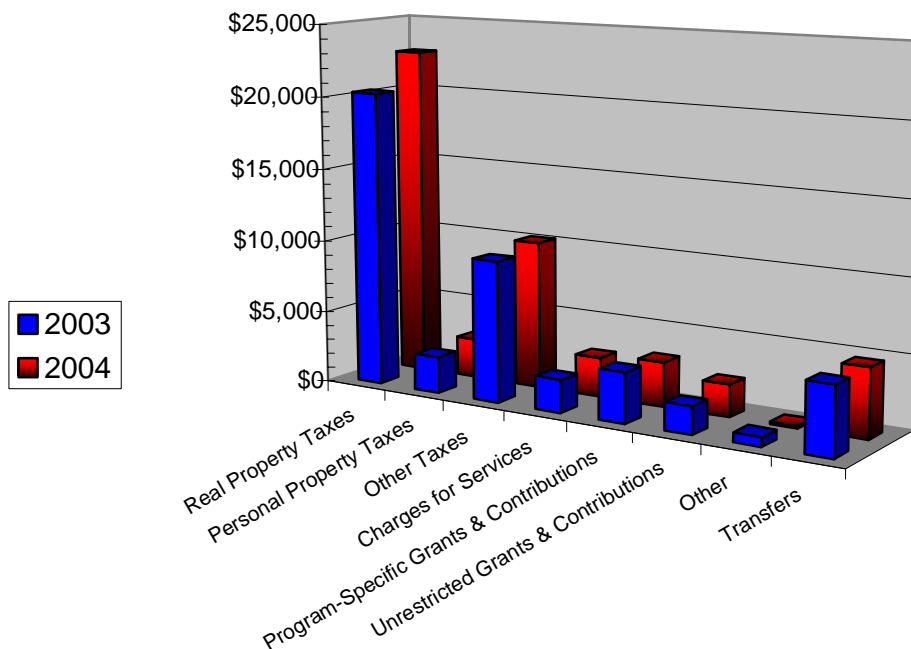
Summary of Changes in Net Assets For the Fiscal Year Ended June 30, 2004 and 2003 (\$ In Thousands)				
	2004		2003	
	Governmental Activities	Business- Type Activities	Governmental Activities	Business- Type Activities
Revenues:				
Program revenues:				
Charges for services	\$ 2,705	\$ 15,327	\$ 2,274	\$ 15,312
Operating grants & contributions	3,045	115	2,706	-
Capital grants & contributions	-	131	749	537
General revenues:				
Real estate taxes	22,736	-	20,299	-
Personal property taxes	2,701	-	2,501	-
Business license taxes	2,297	-	2,343	-
Local sales & use taxes	3,493	-	3,293	-
Consumer's utility taxes	1,656	-	1,452	-
Motor vehicle decals	201	-	234	-
Recordation	203	-	138	-
Occupancy, tobacco, & other taxes	2,306	-	2,242	-
Unrestricted grants & contributions	2,211	-	1,895	-
Revenue from use of money and property	123	377	252	701
Other	54	30	384	35
Total revenues	<u>43,731</u>	<u>15,980</u>	<u>40,762</u>	<u>16,585</u>
Expenses:				
General government administration	3,884	-	3,533	-
Judicial administration	1,065	-	1,011	-
Public safety	6,638	-	6,795	-
Public works	4,150	17,029	4,748	17,206
Health and welfare	2,784	-	2,667	-
Education and payments to schools	21,178	-	20,248	-
Parks, recreation, and cultural	2,990	-	2,759	-
Community development	841	-	824	-
Economic development	290	-	429	-
Interest expense	1,589	-	1,398	-
Total expenses	<u>45,409</u>	<u>17,029</u>	<u>44,412</u>	<u>17,206</u>
Excess/(deficiency) before transfers	(1,678)	(1,049)	(3,650)	(621)
Transfers	<u>4,713</u>	<u>(4,713)</u>	<u>4,713</u>	<u>(4,713)</u>
Change in net assets	3,035	(5,762)	1,063	(5,334)
Net assets, beginning of year	<u>27,113</u>	<u>76,559</u>	<u>26,050</u>	<u>81,893</u>
Net assets, end of year	<u>\$ 30,148</u>	<u>\$ 70,797</u>	<u>\$ 27,113</u>	<u>\$ 76,559</u>

CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2004

Governmental Activities

Revenues and transfers for the City's governmental activities were \$48.4 million for fiscal year 2004 and \$45.5 million for fiscal year 2003. Sources of revenue for fiscal year 2004 and 2003 are comprised of the following items:

Governmental Activities – Revenues by Source
For the Fiscal Years Ended June 30, 2004 and 2003
(\$ In Thousands)

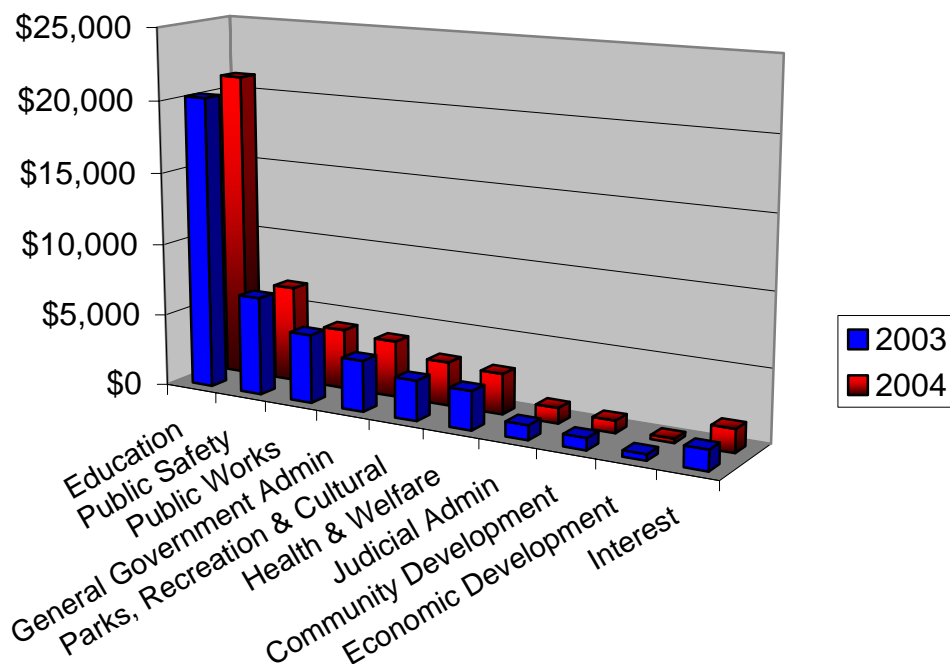


Taxes constitute the largest source of City revenues, amounting to \$35.6 million for fiscal year 2004 and \$32.5 million for fiscal year 2003. Real property taxes (\$22.7 million in fiscal year 2004 and \$20.3 million in fiscal year 2003) represent over 63 percent of total taxes in fiscal year 2004 and over 62 percent in fiscal year 2003. Tax revenues for fiscal year 2004 increased by \$3.1 million largely due to an average increase of 27 percent in real property assessments.

The cost of all governmental activities in fiscal year 2004 was \$45.4 million, and in fiscal year 2003 was \$44.4 million. Education was the City's largest program and highest priority in both fiscal years 2004 and 2003; education expenses totaled \$21.2 million in fiscal year 2004 and \$20.2 million in fiscal year 2003. Public safety expenses represent the second largest expense in both fiscal years, totaling \$6.6 million in fiscal year 2004 and \$6.8 million in fiscal year 2003. Public works expenses totaled \$4.1 million in fiscal year 2004 and \$4.7 million in fiscal year 2003, representing the third largest expense for the City in both fiscal years.

CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2004

Governmental Activities – Expenses by Function
For the Fiscal Years Ended June 30, 2004 and 2003
(\$ In Thousands)



The following table presents the cost of each of the City's six largest programs – education, public safety, public works, general government administration, health and welfare, and parks, recreation and cultural - as well as each program's net cost (total cost less fees generated by the activities and program-specific intergovernmental aid).

Net Cost of City's Governmental Activities For the Fiscal Years Ended June 30, 2004 and 2003 (\$ In Thousands)				
Functions/Programs	2004		2003	
	Total Cost	Net Cost	Total Cost	Net Cost
Education and payments to schools	\$ 21,178	\$ 21,178	\$ 20,248	\$ 20,248
Public safety	6,638	5,138	6,795	4,625
Public works	4,150	3,127	4,748	3,778
General government administration	3,884	3,595	3,533	3,268
Parks, recreation, and cultural	2,990	2,098	2,759	1,870
Health and welfare	2,784	1,935	2,667	1,689
Other	3,785	2,589	3,662	3,204
Total	\$ 45,409	\$ 39,660	\$ 44,412	\$ 38,682

**CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2004**

Some of the cost of governmental activities was paid by those who directly benefited from the programs (\$2.7 million in 2004 and \$2.3 million in 2003) and other governments and organizations that subsidized certain programs with grants and contributions (\$3 million in 2004 and \$3.5 million in 2003). Of the \$39.7 million net cost of services in 2004, the amount that our taxpayers paid for these activities through City taxes was \$35.6 million. The remaining \$4.1 million net cost was funded primarily by transfers from the Water and Sewer funds of \$4.7 million. In fiscal year 2003, of the \$38.7 million of net cost of services, the amount that our taxpayers paid through City taxes was \$32.5 million, and the remaining net cost of \$6.2 million was funded primarily by transfers from Water and Sewer funds of \$4.7 million, and unrestricted grants and contributions of \$1.9 million.

Business-type Activities

The Water Fund reported a decrease in net assets of \$5.2 million for fiscal year 2004 and \$5.1 million for fiscal year 2003. In fiscal year 2004, total revenues and capital contributions of the Water Fund were \$13.9 million as compared to total costs and transfers of \$19.1 million. In fiscal year 2003, total revenues and capital contributions were \$14.8 million and total costs and transfers were \$19.9 million. The Water Fund recovers its costs primarily through user charges and availability fees.

The Sewer Fund reported a decrease in net assets of \$0.6 million for fiscal year 2004 and \$0.2 million for fiscal year 2003. Total revenues of the Sewer Fund were \$2 million as compared to total costs and transfers of \$2.6 million. In fiscal year 2003, total revenues of the Sewer Fund were \$1.8 million and total costs and transfers were \$2 million. The Sewer Fund recovers its costs primarily through user charges and availability fees.

Highlights of the City's business-type activities for fiscal year 2004 are as follows:

- The Water Fund made significant expansion to its water distribution systems through the construction of the Tyson's Corner project. The final stage of this project, the Tyson's Water Storage Tank, was completed during fiscal year 2004. The other two parts, the Dunn Loring Pump Station and Gallows Road Watermain projects, were completed as of June 30, 2003. The total cost of the entire project to date is \$6.9 million.

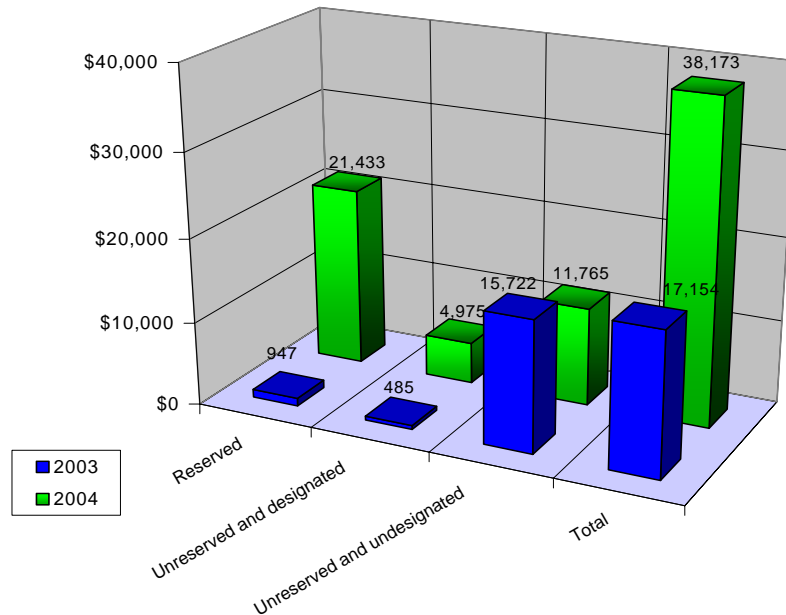
FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The chart on the following page represents the components of City's governmental fund balances as of June 30, 2004 and 2003.

CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2004

Governmental Funds – Fund Balances
As of June 30, 2004 and 2003
(\$ in Thousands)



Overall, the fund balance for all governmental funds increased by approximately \$21 million for the fiscal year ended June 30, 2004 and \$0.5 million for the fiscal year ended June 30, 2003. The total revenues and other financing sources were \$84 million in 2004 and total expenditures and other financing uses were \$63 million. In 2003, total revenues and other financing sources were \$47.5 million and total expenditures and other financing uses were \$47 million. The large increase in total revenues and other financing sources is primarily due to the proceeds from the issuance of bonds.

The reserved amounts include fund balances that are not available for new spending because they have already been committed for items such as existing purchase orders and construction contracts. The increase in reserved fund balances of approximately \$20 million is primarily due to the contracts amounting to approximately \$19.5 million entered into by the City to construct a new middle school and to renovate an elementary school.

The unreserved fund balance represents resources that are available for appropriation. Of this, the City Council designates certain amounts to be used for specific purpose. As of June 30, 2004 and 2003, \$4.9 million and \$150 thousand, respectively, were designated for future construction, and \$56 thousand and \$335 thousand, respectively, were designated for economic development. The increase of \$4.5 million is due to the designation by the City Council for the construction and renovation of the schools mentioned in the preceding paragraph.

CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2004

The City has two governmental funds: (1) the General Fund and (2) the Capital Projects Fund.

The General Fund is the main operating fund of the City. At the end of the current fiscal year, the unreserved fund balance was \$11.8 million (24% of the General Fund's total expenditures). The revenues of \$45.4 million less expenditures of \$48.8 million and other financing uses (net) of \$0.2 million resulted in a net decrease in fund balance of \$3.6 million. As of the end of the prior fiscal year, the unreserved fund balance was \$15.7 million (34% of the General Fund's total expenditures). In fiscal year 2003, revenues of \$42.4 million and other financing sources of \$5 million exceeded expenditures of \$46.3 million, resulting in an increase in fund balance of \$1.1 million. The City used fund balance in the amount of \$5.6 million to finance a portion of the new middle school.

The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by the Proprietary Funds). As of June 30, 2004 and 2003, the fund balance was \$24.9 million and \$0.3 million, respectively. Of these amounts, \$20.0 million and \$151 thousand were reserved for encumbrances as of June 30, 2004 and 2003, respectively. All of the remaining funds of \$4.9 million and \$150 thousand as of June 30, 2004 and 2003, respectively, were designated for future construction.

The key factor in the growth of the fund balance in the Capital Projects Fund in fiscal year 2004 is the transfer of \$30.6 million from the General Fund for the purpose of constructing and renovating school buildings, approximately \$24.7 million of which were not spent as of June 30, 2004. The transfer of \$30.6 million is comprised of \$25 million of bond proceeds and \$5.6 million of fund balance.

The City's enterprise funds provide the same type of information found in the government-wide financial statements, as the basis of accounting is the same. Factors concerning finances of the Water and Sewer funds have already been addressed in the discussion of the City's business-type activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

The final amended budget appropriations, which include expenditures and transfers out, exceeded the original budget by \$31.6 million or 64 percent. This increase is due primarily to the amendment to the budget to fund the construction of a new middle school and renovation of an elementary school, in the amount of \$30.6 million. The remaining \$1 million represents carryover of commitments for projects that were not started or completed during the fiscal year ended June 30, 2003.

The final amended budget revenues and transfers in were more than the original budget by \$25 million or 58 percent, primarily due to anticipated receipts from bonds issued to finance the school construction and renovation.

Actual revenues and other financing sources exceeded final budget amounts by \$10.9 million, and actual expenditures and other financing uses were \$6.7 million more than final budget amounts. Highlights of the comparison of final budget to actual figures for the fiscal year ended June 30, 2004, include the following:

- The City issued additional bonds in the amount of \$7.3 million to refund 1993 bonds in the amount of \$8.1 million.
- The City received \$1.2 million in premiums from the sale of new bonds.
- Actual tax revenues exceed budgeted amounts by \$0.8 million mostly due to real property and sales taxes.
- Actual intergovernmental revenues were approximately \$0.8 million more than the budgeted amounts due to additional grants received from state and federal governments.
- Actual departmental expenditures were less due to position vacancies and projects that were planned but not started or completed.

CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2004

CAPITAL ASSETS AND LONG-TERM DEBT

The City's investment in capital assets as of June 30, 2004 and 2003, amounted to approximately \$89.2 million and \$80.7 million, respectively, (net of accumulated depreciation and amortization) as summarized below:

Capital Assets As of June 30, 2004 and 2003 (\$ In Thousands)						
	2004			2003		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business- Type Activities	Total
Land	\$ 4,049	\$ 2,595	\$ 6,644	\$ 4,049	\$ 2,595	\$ 6,644
Construction in progress	6,646	2,069	8,715	312	1,775	2,087
Buildings and system Improvements other than buildings	32,178 2,262	74,046 -	106,224 2,262	32,168 2,262	69,848 -	102,016 2,262
Machinery and equipment	7,329	1,006	8,335	6,711	1,048	7,759
Software	1,311	-	1,311	1,210	-	1,210
Infrastructure	8,506	-	8,506	8,276	-	8,276
Library collections	1,876	-	1,876	1,823	-	1,823
Accumulated depreciation	(22,354)	(32,295)	(54,649)	(20,537)	(30,867)	(51,404)
Total Capital Assets, Net	\$ 41,803	\$ 47,421	\$ 89,224	\$ 36,274	\$ 44,399	\$ 80,673

During fiscal year 2004, the City's net increase in capital assets (including additions, decreases, depreciation and amortization) was \$8.5 million (\$5.5 million net increase for governmental activities and \$3.0 million net increase for business-type activities) or 11 percent. During fiscal year 2003, the City's net increase in capital assets (including additions, decreases, depreciation and amortization) was \$2.1 million (\$1.1 million decrease for governmental activities and \$3.2 million increase for business-type activities) or 3 percent.

This year's major capital asset events included the following:

- Construction of new middle school for a total of \$5.8 million.
- Expansions and additions in the water distribution system for a total of \$4.2 million. The major components of these additions were discussed in the discussion of the City's business-type activities.

Additional information pertaining to the city's capital assets can be found in the notes to the financial statements.

Long-term debt

The City maintains the following ratings related to tax-exempt securities; Aa2 from Moody's Investor Services and AA from Standard and Poor's Corporation.

The City's legal limit for outstanding debt is 10 percent of total assessed real property within the City of \$2,320 million in 2004 and \$1,821 million in 2003. The City's total long-term obligations of \$51.4 million as of June 30, 2004 and \$27.6 million as of June 30, 2003, are well within the limits set by the Constitution of the Commonwealth of Virginia.

CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2004

The City Council has adopted a policy that sets a limit for outstanding debt at percent of total assessed value of real property. In addition, annual debt service payments must be less than 12 percent of annual General Fund expenditures. As of June 30, 2004, total debt outstanding was 2.1 percent of assessed value of real property and debt service payments were 7 percent of General Fund expenditures. As of June 30, 2003, total debt outstanding was 1.4 percent of assessed value of real property and debt service payments were 7 percent of General Fund expenditures.

The following is a summary of the City's outstanding debt as of June 30, 2004 and 2003:

Outstanding Long-Term Debts As of June 30, 2004 and 2003 (\$ In Thousands)						
	2004			2003		
	Govern- mental Activities	Business- Type Activities	Total	Govern- mental Activities	Business- Type Activities	Total
General obligation bonds issued for:						
Schools	\$ 38,105	\$ -	\$ 38,105	\$ 14,951	\$ -	\$ 14,951
Community center	2,247	-	2,247	2,322	-	2,322
Fire station	3,164	-	3,164	3,270	-	3,270
City hall	4,435	-	4,435	4,952	-	4,952
Capital leases and other	3,058	406	3,464	1,710	423	2,133
Total	\$ 51,009	\$ 406	\$ 51,415	\$ 27,205	\$ 423	\$ 27,628

Additional information relative to the City's long-term debt can be found in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The following economic factors are reflected in the General Fund budget for the fiscal year 2005:

- The percentage change in real property taxes for fiscal year 2004 was 11.3 percent as compared to 9.8 percent change in fiscal year 2003.
- Through June 2004, the median sales price of new and existing single family housing units experienced double-digit growth over fiscal year 2003 sales prices.

Per the fiscal year 2005 Adopted Budget, revenues are \$52.8 million, a 9.8 percent increase over the fiscal year 2004 level (excluding anticipated amounts from issuance of bonds). Increase in real property tax revenues account for 59 percent of the total General Fund revenue increase in fiscal year 2005. Revenue from real property taxes will make up approximately 52 percent of total revenues, as compared to 56 percent in fiscal year 2004. Other taxes account for 12 percent of the increase in the General Fund revenue; revenue from the Commonwealth account for 11 percent; and fines and forfeitures account for 7 percent.

Debt service payments will increase approximately \$0.5 million in FY2005 over FY2004 due to full annual debt service for the FY2004 series bonds starting in FY2005.

**CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2004**

Pressures on the City budget due to the uncertainties of State aid and the additional resources required to maintain a safe community will continue to be a challenge. In addition, growth in the numbers of school age children will require an increase in transfers to the School budget as well as the need to fund more classrooms through a new building or additional relocatable structures.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional information, contact the City of Falls Church, Division of Finance, 300 Park Avenue, Falls Church, VA 22046.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read 'John H. Tuohy', with a stylized flourish at the end.

John H. Tuohy, CPA
General Manager, Chief Financial Officer



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CITY OF FALLS CHURCH, VIRGINIA
COMPREHENSIVE ANNUAL
FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

BASIC FINANCIAL
STATEMENTS





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CITY OF FALLS CHURCH, VIRGINIA
STATEMENT OF NET ASSETS
As of June 30, 2004

	Primary Government			Component Units		
	Governmental Activities	Business-Type Activities	Total	School Board	Non-Major Component Units	Total Component Units
ASSETS						
Cash and cash equivalents	\$ 22,046,456	\$ 17,026,650	\$ 39,073,106	\$ 706,587	\$ 126,109	\$ 832,696
Investments	20,958,334	5,694,310	26,652,644	-	-	-
Receivables, net	18,745,246	3,341,990	22,087,236	59,525	-	59,525
Internal balances	(177,144)	177,144	-	-	-	-
Due from primary government	-	-	-	3,915,105	25,439	3,940,544
Due from other governmental units	3,365,107	-	3,365,107	434,867	-	434,867
Prepays	66,158	-	66,158	-	-	-
Inventories	129,323	294,994	424,317	-	-	-
Capital assets:						
Non-depreciable	10,694,515	4,663,912	15,358,427	743,354	517,255	1,260,609
Depreciable, net of accumulated depreciation	31,108,530	42,757,329	73,865,859	2,030,894	-	2,030,894
Total capital assets, net	<u>41,803,045</u>	<u>47,421,241</u>	<u>89,224,286</u>	<u>2,774,248</u>	<u>517,255</u>	<u>3,291,503</u>
Total Assets	<u>106,936,525</u>	<u>73,956,329</u>	<u>180,892,854</u>	<u>7,890,332</u>	<u>668,803</u>	<u>8,559,135</u>
LIABILITIES						
Accounts payable and other current liabilities	2,864,530	2,752,733	5,617,263	3,015,098	-	3,015,098
Accrued interest payable	471,068	-	471,068	-	-	-
Due to fiduciary funds	636,888	-	636,888	-	-	-
Due to component unit	3,940,545	-	3,940,545	-	-	-
Deferred revenue	17,545,081	-	17,545,081	-	-	-
Customer deposits	321,090	-	321,090	-	-	-
Noncurrent liabilities:						
Portion due or payable within one year	2,908,398	213,794	3,122,192	344,294	-	344,294
Due in more than one year	<u>48,100,834</u>	<u>192,408</u>	<u>48,293,242</u>	<u>549,234</u>	<u>-</u>	<u>549,234</u>
Total Liabilities	<u>76,788,434</u>	<u>3,158,935</u>	<u>79,947,369</u>	<u>3,908,626</u>	<u>-</u>	<u>3,908,626</u>
NET ASSETS						
Invested in capital assets, net of related debt	16,988,211	47,421,241	64,409,452	2,590,407	517,255	3,107,662
Unrestricted	<u>13,159,880</u>	<u>23,376,153</u>	<u>36,536,033</u>	<u>1,391,299</u>	<u>151,548</u>	<u>1,542,847</u>
Total Net Assets	<u>\$ 30,148,091</u>	<u>\$ 70,797,394</u>	<u>\$ 100,945,485</u>	<u>\$ 3,981,706</u>	<u>\$ 668,803</u>	<u>\$ 4,650,509</u>

CITY OF FALLS CHURCH, VIRGINIA
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2004

Program Revenues					Net (Expenses) Revenue and Changes in Net Assets					
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units		
					Governmental Activities	Business-Type Activities	Total	School Board	Non-Major Component Units	Total Component Units
Primary Government:										
Governmental activities:										
General government administration	\$ 3,883,989	\$ 86,915	\$ 202,334	\$ -	\$ (3,594,740)	\$ -	\$ (3,594,740)	\$ -	\$ -	\$ -
Judicial administration	1,065,276	670,874	340,225	-	(54,177)	-	(54,177)	-	-	-
Public safety	6,638,269	1,007,262	492,945	-	(5,138,062)	-	(5,138,062)	-	-	-
Public works	4,150,055	85,597	937,340	-	(3,127,118)	-	(3,127,118)	-	-	-
Health and welfare	2,784,179	-	849,754	-	(1,934,425)	-	(1,934,425)	-	-	-
Education and payments to Schools	21,177,645	-	-	-	(21,177,645)	-	(21,177,645)	-	-	-
Parks, recreation, and cultural	2,989,439	677,807	213,735	-	(2,097,897)	-	(2,097,897)	-	-	-
Community development	841,264	176,051	9,035	-	(656,178)	-	(656,178)	-	-	-
Economic development	290,087	-	-	-	(290,087)	-	(290,087)	-	-	-
Interest expense	1,589,430	-	-	-	(1,589,430)	-	(1,589,430)	-	-	-
Total governmental activities	45,409,633	2,704,506	3,045,368	-	(39,659,759)	-	(39,659,759)	-	-	-
Business-type activities:										
Water	14,442,756	13,317,162	115,000	130,691	-	(879,903)	(879,903)	-	-	-
Sewer	2,586,301	2,009,726	-	-	-	(576,575)	(576,575)	-	-	-
Total business-type activities	17,029,057	15,326,888	115,000	130,691	-	(1,456,478)	(1,456,478)	-	-	-
Total Primary Government	\$ 62,438,690	\$ 18,031,394	\$ 3,160,368	\$ 130,691	\$ (39,659,759)	\$ (1,456,478)	\$ (41,116,237)	\$ -	\$ -	\$ -
Component Units:										
Education	26,019,127	1,609,447	3,878,976	263,743	-	-	-	(20,266,961)	-	(20,266,961)
Economic development	126,109	-	-	-	-	-	-	-	(126,109)	(126,109)
Total Component Units	\$ 26,145,236	\$ 1,609,447	\$ 3,878,976	\$ 263,743	\$ -	\$ -	\$ -	\$ (20,266,961)	\$ (126,109)	\$ (20,393,070)
General Revenues:										
Taxes:										
Real property					\$ 22,736,340	\$ -	\$ 22,736,340	\$ -	\$ -	\$ -
Personal property					2,700,860	-	2,700,860	-	-	-
Business licenses					2,296,618	-	2,296,618	-	-	-
Local sales & use					3,492,983	-	3,492,983	-	-	-
Consumer's utility					1,655,968	-	1,655,968	-	-	-
Motor vehicle decals					200,940	-	200,940	-	-	-
Recordation					203,335	-	203,335	-	-	-
Occupacy, tobacco, and other					2,305,965	-	2,305,965	-	-	-
Grants and contributions not restricted to specific programs					2,211,120	-	2,211,120	-	-	-
Revenue from use of money and property					122,565	377,777	500,342	80,762	24,201	104,963
Payment from primary government					-	-	-	20,640,558	-	20,640,558
Payment from Industrial Development Authority					-	-	-	-	126,109	126,109
Share of Commonwealth's lottery proceeds					-	-	-	82,997	-	82,997
Other					54,442	30,651	85,093	88,582	2,600	91,182
Transfers:										
Payments in lieu of taxes					87,500	(87,500)	-	-	-	-
Return on equity					4,625,874	(4,625,874)	-	-	-	-
Total General Revenues and Transfers					42,694,510	(4,304,946)	38,389,564	20,892,899	152,910	21,045,809
Change in net assets					3,034,751	(5,761,424)	(2,726,673)	625,938	26,801	652,739
Net Assets - Beginning of Year					27,113,340	76,558,818	103,672,158	3,355,768	642,002	3,997,770
Net Assets - End of Year					\$ 30,148,091	\$ 70,797,394	\$ 100,945,485	\$ 3,981,706	\$ 668,803	\$ 4,650,509

The notes to the financial statements are an integral part of this statement.

CITY OF FALLS CHURCH, VIRGINIA
BALANCE SHEET
GOVERNMENTAL FUNDS
As of June 30, 2004

	<u>General</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 17,806,284	\$ 4,240,172	\$ 22,046,456
Investments	-	20,958,334	20,958,334
Receivables, net	18,745,246	-	18,745,246
Due from other governmental units	3,365,107	-	3,365,107
Due from other funds	-	951,981	951,981
Prepaid items	66,158	-	66,158
Inventories	129,323	-	129,323
	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 40,112,118</u>	<u>\$ 26,150,487</u>	<u>\$ 66,262,605</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	\$ 1,667,571	\$ 1,196,959	\$ 2,864,530
Deferred revenue	19,197,691	-	19,197,691
Customer deposits	321,090	-	321,090
Due to other funds	1,766,013	-	1,766,013
Due to component units	3,940,545	-	3,940,545
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>26,892,910</u>	<u>1,196,959</u>	<u>28,089,869</u>
Fund Balances:			
Reserved for:			
Encumbrances	1,202,464	20,034,668	21,237,132
Inventory	129,323	-	129,323
Prepaid items	66,158	-	66,158
Unreserved, reported in:			
General Fund:			
Designated for economic development	56,455	-	56,455
Undesignated	11,764,808	-	11,764,808
Capital Projects Fund:			
Designated for construction	-	4,918,860	4,918,860
	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>13,219,208</u>	<u>24,953,528</u>	<u>38,172,736</u>
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities and Fund Balances	<u>\$ 40,112,118</u>	<u>\$ 26,150,487</u>	<u>\$ 66,262,605</u>

CITY OF FALLS CHURCH, VIRGINIA
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
As of June 30, 2004

Fund balances - total governmental funds		\$ 38,172,736
Amounts reported for governmental activities in the Statement of Net Assets (Exhibit I) are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		
Governmental capital assets	64,157,358	
Less accumulated depreciation	<u>(22,354,313)</u>	41,803,045
Some of the City's receivables will not be collected soon enough to pay for the current period's expenditures and, therefore, are reported as deferred revenue in the funds:		
Delinquent property taxes (net of allowances)		1,652,610
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.		
General obligation bonds payable	(47,950,000)	
Premium on bond sale (net of accumulated amortization)	(1,035,337)	
Compensated absences	(1,426,376)	
Capital leases payable	<u>(597,519)</u>	(51,009,232)
Interest on long-term liabilities is not accrued in the governmental funds, but is recognized as an expenditure when due.		<u>(471,068)</u>
Net Assets of Governmental Activities		<u><u>\$ 30,148,091</u></u>

CITY OF FALLS CHURCH, VIRGINIA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2004

	<u>General</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
REVENUES			
General property taxes	\$ 24,985,137	\$ -	\$ 24,985,137
Other local taxes	10,130,055	-	10,130,055
Permit, privilege fees, and regulatory licenses	361,371	-	361,371
Fines and forfeitures	996,688	-	996,688
Revenue from use of money and property	119,001	3,564	122,565
Charges for services	1,265,181	-	1,265,181
Miscellaneous	111,457	-	111,457
Recovered costs	2,184,999	-	2,184,999
Intergovernmental:			
Commonwealth	4,142,091	-	4,142,091
Federal	1,083,137	-	1,083,137
Total Revenues	<u>45,379,117</u>	<u>3,564</u>	<u>45,382,681</u>
EXPENDITURES			
Current:			
General government administration	5,193,514	-	5,193,514
Judicial administration	1,025,090	-	1,025,090
Public safety	6,240,752	-	6,240,752
Public works	4,768,075	-	4,768,075
Health and welfare	2,760,756	-	2,760,756
Education and payments to Schools	20,702,332	-	20,702,332
Parks, recreation, and cultural	2,849,028	-	2,849,028
Community development	1,196,845	-	1,196,845
Economic development	277,471	-	277,471
Capital outlay	442,728	5,951,874	6,394,602
Debt service:			
Principal retirement	1,907,025	-	1,907,025
Interest and other fiscal charges	1,456,499	-	1,456,499
Total Expenditures	<u>48,820,115</u>	<u>5,951,874</u>	<u>54,771,989</u>
Deficiency of revenues under expenditures	<u>(3,440,998)</u>	<u>(5,948,310)</u>	<u>(9,389,308)</u>
Other financing sources/(uses):			
Transfer for return on equity - Enterprise Funds	4,713,374	-	4,713,374
Transfers in/(out)	(30,600,000)	30,600,000	-
Proceeds from bond sale	25,000,000	-	25,000,000
Proceeds from refunding bonds	7,340,000	-	7,340,000
Payment to refund bonds	(8,258,750)	-	(8,258,750)
Premium on bond sale	1,170,146	-	1,170,146
Proceeds from capital leases	442,728	-	442,728
Total Other Financing Sources/(Uses)	<u>(192,502)</u>	<u>30,600,000</u>	<u>30,407,498</u>
Net Change in Fund Balances	(3,633,500)	24,651,690	21,018,190
Fund Balances at beginning of year	<u>16,852,708</u>	<u>301,838</u>	<u>17,154,546</u>
Fund Balances at end of year	<u>\$ 13,219,208</u>	<u>\$ 24,953,528</u>	<u>\$ 38,172,736</u>

The notes to the financial statements are an integral part of this statement.

CITY OF FALLS CHURCH, VIRGINIA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2004

Net change in fund balances - total governmental funds		\$ 21,018,190
Amounts reported for governmental activities in the Statement of Activities (Exhibit II) are different because:		
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets.		
Expenditures for capital assets	7,475,728	
Less current year depreciation and amortization	<u>(1,947,191)</u>	5,528,537
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		
Change in deferred revenue related to taxes		452,056
The issuance of long-term debt (e.g., bonds and capital leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. However, issuing debt increases long-term liabilities and the repayment of debt reduces long-term liabilities in the Statement of Net Assets, but these transactions do not affect the Statement of Activities.		
Proceeds from issuance of bonds	(32,340,000)	
Proceeds from capital leases	(442,728)	
Premium on bond sale, net of current period amortization	(1,035,337)	
Principal payments on bonds	1,740,000	
Payment to refund bonds	8,145,000	
Principal payments on capital leases	<u>167,025</u>	(23,766,040)
Certain expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Change in compensated absence liability	(44,003)	
Change in accrued interest liability	<u>(153,989)</u>	(197,992)
Change in Net Assets of Governmental Activities		<u>\$ 3,034,751</u>

CITY OF FALLS CHURCH, VIRGINIA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES --
BUDGET AND ACTUAL
For the Year Ended June 30, 2004

	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual	
REVENUES				
General property taxes	\$ 24,738,190	\$ 24,738,190	\$ 24,985,137	\$ 246,947
Other local taxes	9,567,896	9,567,896	10,130,055	562,159
Permit, privilege fees, and regulatory licenses	307,502	307,502	361,371	53,869
Fines and forfeitures	626,800	626,800	996,688	369,888
Revenue from use of money and property	277,440	277,440	119,001	(158,439)
Charges for services	1,080,268	1,080,268	1,265,181	184,913
Miscellaneous	179,700	179,700	111,457	(68,243)
Recovered costs	2,169,732	2,169,732	2,184,999	15,267
Intergovernmental:				
Commonwealth	3,614,141	3,614,141	4,142,091	527,950
Federal	803,262	803,262	1,083,137	279,875
Total Revenues	43,364,931	43,364,931	45,379,117	2,014,186
EXPENDITURES				
Current:				
General government administration	5,030,209	5,317,784	5,193,514	124,270
Judicial administration	1,046,616	1,051,905	1,025,090	26,815
Public safety	6,406,548	6,455,676	6,240,752	214,924
Public works	5,062,395	6,106,544	4,768,075	1,338,469
Health and welfare	3,065,882	3,081,592	2,760,756	320,836
Education and and payments to Schools	21,163,662	20,702,462	20,702,332	130
Parks, recreation, and cultural	2,877,072	2,853,872	2,849,028	4,844
Community development	1,332,162	1,393,992	1,196,845	197,147
Economic development	351,268	351,268	277,471	73,797
Capital outlay	-	-	442,728	(442,728)
Debt service:				
Principal retirement	1,740,000	1,740,000	1,907,025	(167,025)
Interest and other fiscal charges	1,313,959	1,313,959	1,456,499	(142,540)
Total Expenditures	49,389,773	50,369,054	48,820,115	1,548,939
Deficiency of revenues under expenditures	(6,024,842)	(7,004,123)	(3,440,998)	3,563,125
Other financing sources/(uses):				
Transfer for return on equity - Enterprise Funds	4,713,374	4,713,374	4,713,374	-
Transfers out	-	(30,600,000)	(30,600,000)	-
Proceeds from bond sale	-	25,000,000	25,000,000	-
Proceeds from refunding bonds	-	-	7,340,000	7,340,000
Payment to refund bonds	-	-	(8,258,750)	(8,258,750)
Premium on bond sale	-	-	1,170,146	1,170,146
Proceeds from capital leases	-	-	442,728	442,728
Total Other Financing Sources/(Uses)	4,713,374	(886,626)	(192,502)	694,124
Net Change in Fund Balances	(1,311,468)	(7,890,749)	(3,633,500)	4,257,249
Fund Balances at beginning of year	16,852,708	16,852,708	16,852,708	-
Fund Balances at end of year	\$ 15,541,240	\$ 8,961,959	\$ 13,219,208	\$ 4,257,249

The notes to the financial statements are an integral part of this statement.

CITY OF FALLS CHURCH, VIRGINIA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
As of June 30, 2004

	Business-Type Activities -- Enterprise Funds		
	Water	Sewer	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 13,828,735	\$ 3,197,915	\$ 17,026,650
Investments	5,694,310	-	5,694,310
Receivables, net	2,757,242	584,748	3,341,990
Due from other funds	163,053	14,091	177,144
Inventories	292,859	2,135	294,994
Total current assets	<u>22,736,199</u>	<u>3,798,889</u>	<u>26,535,088</u>
Noncurrent Assets:			
Capital assets:			
Non-depreciable	4,658,792	5,120	4,663,912
Depreciable, net	40,419,525	2,337,804	42,757,329
Total capital assets, net	<u>45,078,317</u>	<u>2,342,924</u>	<u>47,421,241</u>
Total noncurrent assets	<u>45,078,317</u>	<u>2,342,924</u>	<u>47,421,241</u>
Total Assets	<u>\$ 67,814,516</u>	<u>\$ 6,141,813</u>	<u>\$ 73,956,329</u>
LIABILITIES AND NET ASSETS			
Liabilities:			
Current liabilities:			
Accounts payable and accrued liabilities	\$ 2,319,491	\$ 433,242	\$ 2,752,733
Accrued compensated absences	205,278	8,516	213,794
Total current liabilities	<u>2,524,769</u>	<u>441,758</u>	<u>2,966,527</u>
Noncurrent liabilities:			
Compensated absences, net of current amount	<u>186,256</u>	<u>6,152</u>	<u>192,408</u>
Total Liabilities	<u>2,711,025</u>	<u>447,910</u>	<u>3,158,935</u>
Net Assets:			
Invested in capital assets	45,078,317	2,342,924	47,421,241
Unrestricted	<u>20,025,174</u>	<u>3,350,979</u>	<u>23,376,153</u>
Total Net Assets	<u>65,103,491</u>	<u>5,693,903</u>	<u>70,797,394</u>
Total Liabilities and Net Assets	<u>\$ 67,814,516</u>	<u>\$ 6,141,813</u>	<u>\$ 73,956,329</u>

CITY OF FALLS CHURCH, VIRGINIA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
For the Year Ended June 30, 2004

	Business-Type Activities -- Enterprise Funds		
	Water	Sewer	Total
Operating Revenues:			
Charges for services	\$ 12,328,706	\$ 2,001,196	\$ 14,329,902
Rentals	169,328	-	169,328
Miscellaneous	30,089	562	30,651
Total Operating Revenues	12,528,123	2,001,758	14,529,881
Operating Expenses:			
Source of supply	\$ 6,345,529	-	6,345,529
Distribution system	2,040,620	-	2,040,620
Collection and disposal	-	2,214,019	2,214,019
Water connections	468,012	-	468,012
Pumping operations	275,300	-	275,300
Administration	3,841,874	308,514	4,150,388
Depreciation	1,420,476	63,768	1,484,244
Total Operating Expenses	14,391,811	2,586,301	16,978,112
Operating Loss	(1,863,688)	(584,543)	(2,448,231)
Nonoperating Revenues/(Expenses):			
Availability fees	988,456	8,530	996,986
Federal grant	115,000	-	115,000
Investment earnings	166,554	41,895	208,449
Loss on disposition of fixed assets	(50,945)	-	(50,945)
Total Nonoperating Revenue	1,219,065	50,425	1,269,490
Loss Before Contributions and Transfers	(644,623)	(534,118)	(1,178,741)
Capital contributions	130,691	-	130,691
Transfers to General Fund:			
Payments in lieu of taxes	(57,000)	(30,500)	(87,500)
Return on equity	(4,625,874)	-	(4,625,874)
Change in Net Assets	(5,196,806)	(564,618)	(5,761,424)
Total net assets at beginning of year	70,300,297	6,258,521	76,558,818
Total net assets at end of year	\$ 65,103,491	\$ 5,693,903	\$ 70,797,394

CITY OF FALLS CHURCH, VIRGINIA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2004

	Business-type Activities -- Enterprise Funds		
	Water	Sewer	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	\$ 11,094,134	\$ 1,640,993	\$ 12,735,127
Payments to suppliers	(11,003,035)	(1,998,056)	(13,001,091)
Payments to employees	(2,525,447)	(132,863)	(2,658,310)
Payments for interfund services used	(1,878,636)	(225,096)	(2,103,732)
Net Cash Used in Operating Activities	(4,312,984)	(715,022)	(5,028,006)
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES			
Payments in lieu of taxes	(57,000)	(30,500)	(87,500)
Return on equity transfer to General Fund	(4,625,874)	-	(4,625,874)
Grant from Federal government	115,000	-	115,000
Net Cash Used in Noncapital and Related Financing Activities	(4,567,874)	(30,500)	(4,598,374)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Receipts from customers for availability fees	988,456	8,530	996,986
Acquisition and construction of capital assets	(4,241,171)	(185,838)	(4,427,009)
Net Cash Used in Capital and Related Financing Activities	(3,252,715)	(177,308)	(3,430,023)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investments	(5,528,665)	-	(5,528,665)
Interest and dividends received	226,032	41,895	267,927
Net Cash Provided by (Used in) Investing Activities	(5,302,633)	41,895	(5,260,738)
Net Decrease in Cash and Cash Equivalents	(17,436,206)	(880,935)	(18,317,141)
Cash and Cash Equivalents, Beginning of Year	31,264,941	4,078,850	35,343,791
Cash and Cash Equivalents, End of Year	<u>\$ 13,828,735</u>	<u>\$ 3,197,915</u>	<u>\$ 17,026,650</u>
Reconciliation of Operating Loss to Net Cash Used in Operating Activities:			
Operating loss	\$ (1,863,688)	\$ (584,543)	\$ (2,448,231)
Adjustments to reconcile operating loss to net cash used in operating activities			
Depreciation expense	1,420,476	63,768	1,484,244
Bad debt expense	27,000	4,000	31,000
Changes in operating assets and liabilities:			
(Increase)/decrease in:			
Accounts receivable	(1,328,282)	(346,915)	(1,675,197)
Inventory	7,226	496	7,722
Due to/from other funds	(145,592)	(13,588)	(159,180)
Increase/(decrease) in:			
Accounts payable and accrued liabilities	(2,407,593)	156,147	(2,251,446)
Accrued compensated absences	(22,531)	5,613	(16,918)
Total adjustments	(2,449,296)	(130,479)	(2,579,775)
Net Cash Used in Operating Activities	<u>\$ (4,312,984)</u>	<u>\$ (715,022)</u>	<u>\$ (5,028,006)</u>
Supplemental Schedule of Noncash Investing, Capital, and Financing Activities:			
Contributions of capital assets	\$ 130,691	\$ -	\$ 130,691
Decrease in fair value of investments	\$ 87,716	\$ -	\$ 87,716

CITY OF FALLS CHURCH, VIRGINIA
STATEMENT OF FIDUCIARY NET ASSETS
As of June 30, 2004

	Pension Trust Funds	Agency Funds
	<hr/>	<hr/>
ASSETS		
Cash and cash equivalents	\$ 941,299	\$ 1,909,458
Investments:		
Corporate equity securities	27,730,233	-
Corporate bonds	15,351,248	-
Mutual funds	19,320,290	-
Total investments	62,401,771	-
Interest and dividend receivable	19,120	-
Other receivables	-	477,408
Due from general fund	-	692,001
	<hr/>	<hr/>
Total Assets	63,362,190	3,078,867
	<hr/>	<hr/>
LIABILITIES		
Due to general fund	55,093	20
Due to other governments	-	3,078,847
	<hr/>	<hr/>
Total Liabilities	55,093	3,078,867
	<hr/>	<hr/>
NET ASSETS		
Held in trust for pension benefits	\$ 63,307,097	\$ -
	<hr/> <hr/>	<hr/> <hr/>

CITY OF FALLS CHURCH, VIRGINIA
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PENSION TRUST FUNDS
For the Year Ended June 30, 2004

ADDITIONS

Employee contributions	\$ 30,988
Investment earnings:	
Interest	284,287
Dividends	613,049
Net increase in the fair value of investments	6,502,233
Total investment earnings	7,399,569
Less investment expense	(147,273)
Net investment earnings	7,252,296
 Total Additions	 7,283,284

DEDUCTIONS

Benefits	2,156,092
Administration	79,426
 Total Deductions	 2,235,518
 Change in Net Assets	 5,047,766
Net Assets at Beginning of Year	58,259,331
 Net Assets at End of Year	 \$ 63,307,097

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2004

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Falls Church, Virginia (the City), is a municipal corporation incorporated as an independent city in 1948 under laws of the Commonwealth of Virginia, and is not part of any county. The City operates under a Council-Manager form of government and provides municipal services such as general administration, police, fire, street maintenance, sanitation, health and social services, recreation, library, planning and community development. Those services are either provided directly by the City or through contracts with the Counties of Arlington and Fairfax, Virginia. The City has its own water system that also serves a part of Fairfax County and a sewer system that only serves the City. Through one of its component units, the City of Falls Church School Board, the City provides elementary and secondary education to city residents.

A. Reporting Entity

The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. The discretely presented component units are reported in a separate column in the government-wide financial statements (see Note II.B below for discussion) to emphasize that they are legally separate from the City and not a part of the primary government.

Blended component units. Blended component units, although legally separate entities, are in substance part of the government's operations. Characteristics of blended component units are having substantially the same members of its governing body as the primary government, and/or created to provide services directly to or for the primary government. The City has no blended component units.

Discretely presented component units. Discretely presented component units are legally separate entities for which the elected officials of the primary government are financially accountable, the entity's governing body is not substantially the same as that of the primary government, and the entities do not provide services solely to or for the benefit of the primary government.

The following organizations are reported as discretely presented component units. None of these component units publish their own financial reports.

The City of Falls Church Public School Board (the "School Board") is responsible for elementary and secondary education within the City's jurisdiction. The members of the School Board are elected. The School Board is fiscally dependent upon the City because the City's Council approves the School Board's budget and provides a substantial portion of the School Board's funds for operations.

The Falls Church Industrial Development Authority (IDA) was created by City Council to promote economic development through the issuance of industrial development revenue bonds. The City Council appoints all members of the IDA board. The IDA is fiscally accountable to the Council, and the City is potentially liable for any operating deficits. Additionally, the Council must approve all IDA debt issues.

The Falls Church Economic Development Authority (EDA) was created by City Council to promote economic development within the City. The City Council appoints all members of the EDA board. The EDA is fiscally accountable to the Council, and the City is potentially liable for any operating deficits. The Council must approve all EDA debt issues.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2004

B. Basis of Presentation

Government-wide Financial Statements. The government-wide financial statements (i.e., the statement of net assets (Exhibit I) and the statement of activities (Exhibit II)) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from its component units.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other revenues not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements. The accounts of the reporting entity are organized on the basis of funds, each of which is considered to be a separate accounting entity. Separate fund financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The emphasis of these financial statements is on major governmental and enterprise funds, which are presented in separate columns. All remaining governmental funds, if any, are aggregated and reported in one column as nonmajor funds.

The following are the major funds of the City:

Governmental Funds. The General Fund is the City's primary operating fund. It is used to account for all financial resources except those required to be accounted for in another fund. Another major governmental fund is the Capital Projects Fund. This fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by the proprietary funds). This fund is reported as a major fund in FY 2004 due to the increased activities resulting from the issuance of bonds for the construction of a new middle school and renovations to an existing elementary school.

Proprietary Funds. The Water Fund and the Sewer Fund are the two enterprise funds of the City. These funds are used to account for the financing, construction, and operations of the City's water and sewer systems.

The City also reports the following fiduciary funds:

Pension Trust Funds. These funds are used to account for the activities of the City's two defined benefit pension plans, the Basic Pension Plan and the Police Pension Plan, which cover all regular and police employees of the City, respectively.

Agency Funds. These funds are used to account for assets held by the City in a trustee capacity or as an agent for the Fairfax County Water Authority and the Northern Virginia Criminal Justice Academy. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of operations.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2004

C. Measurement Focus and Basis of Accounting

The City prepares its financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP) applicable to governmental entities.

1. Government-wide, Proprietary, and Fiduciary Fund Financial Statements

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are generally recognized when earned and expenses are recognized at the time a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been satisfied. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then unrestricted resources as they are needed.

Amounts reported as program revenues in the government-wide financial statements include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than program revenues. Likewise, general revenues include all taxes. The City charges all costs except interest on long-term obligations and depreciation to the appropriate function at the time such costs are incurred. Depreciation has been allocated to each function. Interest on long-term obligations is shown as a separate line item in the government-wide financial statements.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and sewer funds are charges to customers for sales and services. The water fund also includes as operating revenue, the availability fees charged to new customers. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

For the pension trust funds, both member and employer contributions to each plan are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

The City follows private-sector standards of accounting and financial reporting issued prior to December 1, 1989, in the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the guidance of the Governmental Accounting Standards Board (GASB). Governments also have the option of applying subsequent private-sector guidance for their business-type activities and Proprietary Funds, subject to this same limitation. The City has elected not to apply this option.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer functions and various other functions of the government. Elimination of these charges would distort the costs and program revenues reported for the various functions concerned.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2004

2. *Governmental Fund Financial Statements*

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues from the use of money and from intergovernmental reimbursement grants are recorded as earned. Other revenues are considered to be available when they are collectible within the current period or within 60 days thereafter. The primary revenues susceptible to accrual include property, business licenses, and other local taxes and intergovernmental revenues. In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the individual programs are used as guidance. Expenditures generally are recorded when a liability is incurred, as under the accrual basis of accounting. However, debt service expenditures, as well as expenditures related to compensated absences, are recognized only when payment is due. General capital asset acquisitions are reported as capital outlays in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

D. Assets, Liabilities, and Net Assets or Equity

1. *Cash and Cash Equivalents*

For purposes of the statement of cash flows, the City's cash and cash equivalents include certificates of deposit, Local Government Investment Pool assets, overnight repurchase agreements, short-term U.S. Government obligations and other highly liquid investments which are readily convertible to known amounts of cash and mature within three months of the date acquired by the City.

The City maintains cash and cash equivalents for all funds in a single pooled account, except for certain cash and investments required to be maintained in separate accounts in order to comply with provisions of grants and other agreements. The component units also invest in the pooled cash account. As of June 30, 2004, the pooled cash and cash equivalents have been allocated between the City and the respective component units based upon their respective ownership percentages. Interest earned, less an administrative charge, is generally allocated to the respective funds and component units based on each fund's or component unit's equity in the pooled account except when City Council authorizes the allocation of the fund's interest income into the General Fund.

City cash receipt and disbursement transactions are initiated in the General Fund. Amounts applicable to the other funds and component units are transferred thereto through interfund receivable and payable accounts.

2. *Investments*

Money market investments that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost, which approximates fair value. Other investments are recorded at fair value. Investment purchases and sales are recorded as of the trade date. Investment income is allocated to each fund based on each fund's equity in the pooled account except when City Council authorizes the allocation of the fund's interest income into the General Fund.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2004

3. *Receivables and Payables*

Activities within the funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds”. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide statement of net assets as “internal balances”.

All trade and property taxes receivables, including those for the water and sewer funds, are shown net of an allowance for estimated uncollectible amounts. Unbilled water and sewer service bills are estimated at fiscal year end net of an estimated provision for uncollectible accounts.

Accounts payable and accrued liabilities include amounts due to vendors and employees for goods and services received as of June 30, 2004.

4. *Inventories and Prepaid Items*

All inventories are valued at the lower of cost (using the first in, first out method) or market. Inventories of both governmental and proprietary funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

5. *Capital Assets*

Capital assets, which include land, buildings, improvements, machinery and equipment, library collections, and infrastructure assets (e.g., roads, sidewalks, water and sewer systems, and similar items), that individually cost \$5,000 or more, with useful lives greater than one year are reported in the proprietary funds and applicable governmental or business-type activities columns in the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed and actual costs are not known. Donated capital assets are recorded at estimated fair value at the date of donation.

Capital assets are depreciated/amortized over their estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Capital Assets	Useful Lives
Infrastructure	20-50 years
Water system	20-40 years
Sewer system	20-40 years
Buildings	50 years
Improvements, other than buildings	20 years
Machinery and Equipment	5-20 years
Library collections	5 years
Software	3 years

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend their useful lives are not capitalized.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2004

Major outlays for capital assets and improvements are initially capitalized as construction in progress and are transferred to buildings and improvements when the assets are substantially complete and placed in service.

Leases that meet the criteria for capitalization are capitalized in the Statement of Net Assets for the governmental activities and the component units. Related amortization is included in depreciation expense in the Statement of Activities.

6. *Compensated Absences*

All reporting entity employees earn annual leave and sick leave based on a prescribed formula. In addition, employees may accrue compensatory leave for hours worked in excess of their scheduled hours. Upon termination of employment, permanent City employees are entitled to payment of 100% of unused annual leave, generally 25% of all unused sick leave, and all of their compensatory leave not to exceed 40 hours for certain employees or 100 hours for other employees. School Board employees are paid up to 40 days of their annual leave and all sick leave at the rate of \$3.75 per hour.

A liability for these amounts is calculated using the employee's pay rate as of June 30, 2004, and is reported in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Such amounts are included in accounts payable and accrued liabilities shown in the City's and the School Board's governmental fund financial statements.

The liabilities for compensated absences are liquidated by the General Fund and the Water and Sewer Funds for City employees and the School Operating Fund for School Board employees.

7. *Long-term Obligations*

In the government-wide and proprietary funds financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary funds statement of net assets.

8. *Net Assets*

Net assets are comprised of three categories: (1) net assets invested in capital assets, net of related debt; (2) restricted net assets; and (3) unrestricted net assets. The first category represents the portion of net assets that is associated with non-liquid, capital assets, less the associated outstanding debt. Restricted net assets reflect the assets whose use is restricted by outside parties or legal constraints. Net assets, which are neither restricted nor invested in capital assets, are reported as unrestricted net assets. The City and its component units have no restricted net assets at June 30, 2004.

The City issues general obligation bonds to finance the construction of school facilities for the School Board because the School Board does not have borrowing or taxing authority. The City reports the outstanding obligations as a liability in its financial statements since the debt is issued and backed by the full faith and credit of the City. Pursuant to legislation passed by the Commonwealth of Virginia and accounting guidance provided by the Auditor of Public Accounts (APA) of the Commonwealth of Virginia, the capital assets acquired by such bond proceeds are reported as capital assets of the City in its government-wide financial statements until such time as the outstanding indebtedness is retired.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2004

Upon retirement of outstanding bonds, the net book value of such capital assets will be transferred to and reported in the School Board's government-wide financial statements.

9. *Designations of Governmental Fund Unreserved Fund Balances and Enterprise Fund Net Assets*

Designations of fund balance represent management's plans that are subject to change.

At June 30, 2004, approximately \$56,000 of the General Fund unreserved fund balance has been designated by the City Council to be used to fund future economic development initiatives. In addition, as of June 30, 2004, the City Council has designated approximately \$4,919,000 of the Capital Projects Fund unreserved fund balance for the construction of a middle school and renovation of an elementary school.

Additionally, at June 30, 2004, management has designated approximately \$20 million of the Water Fund unrestricted net assets to provide for future increased capacity as needed. Such net assets are primarily comprised of accumulated availability fees received from Water Fund customers.

E. *Recovered Costs*

Reimbursements from another government are recorded as recovered costs. Likewise, reimbursements from the Water and Sewer funds for services provided by the General Fund are reported as recovered costs in the governmental fund financial statements, and have been eliminated in the preparation of the government-wide financial statements. The total amount eliminated is approximately \$2.1 million for fiscal year 2004.

F. *Intergovernmental Agreements*

During 2004, the City had agreements with several governmental units to provide certain governmental services to the City. They are detailed below:

1. *County of Fairfax*

The City, the County of Fairfax (the County), and the City of Fairfax comprise the Fairfax-Falls Church Community Services Board (CSB), established under State mandate in 1969, to provide mental health, mental retardation and drug and alcohol abuse treatment services to residents of the three jurisdictions. The CSB uses the County as its fiscal agent. Payments to CSB are recorded as expenses in the government-wide financial statements and as expenditures in the General Fund financial statements. During 2004, the City paid CSB approximately \$581,000.

The City also makes payments to the County for the full cost of the local portion of public assistance payments and for the use of special County health facilities by the City's residents. During 2004, the City paid the County approximately \$595,000 for these services. Such payments are recorded as expenses in the government-wide financial statements and as expenditures in the General Fund.

The City also has an agreement with the County to share in the cost of its sewage treatment facilities. During 2004, the City paid the County approximately \$1.2 million for sewage treatment costs. This cost is recorded as an expense in the Enterprise Funds.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2004

2. *Fairfax County Water Authority*

The City has an agreement with the Fairfax County Water Authority (FCWA) to purchase water from FCWA. During 2004, the City paid the FCWA approximately \$1.8 million for water. This cost is recorded as an expense in the Enterprise Funds.

3. *County of Arlington*

The City contracts its fire and rescue, and judicial services, to Arlington County, Virginia. During 2004, the City paid Arlington County approximately \$1.2 million for fire and rescue services. The City paid Arlington County approximately \$0.5 million for judicial services in 2004.

The City also receives payment from Arlington County for Arlington County's share of the cost of operating a girls' home facility. Payments received during 2004 amounted to approximately \$277,000 and are recorded as revenues in the General Fund financial statements as well as the City's government-wide financial statements.

4. *United States Department of Army Corp. of Engineers (Department of Army)*

The City has an agreement with the Department of Army to purchase water and to share water treatment facility capital costs. For the fiscal year ended June 30, 2004, the City paid approximately \$2.5 million to the Department of Army for water, which is recorded as an expense in the Enterprise Funds. The water treatment facility costs were capitalized in prior years, and a corresponding liability was recorded in the Enterprise Funds accounts payable. For the fiscal year ended June 30, 2004, the City paid approximately \$833,000 towards this liability.

5. *Northern Virginia Criminal Justice Training Academy (NVCJA)*

Along with other local jurisdictions, the City entered into an agreement to assist in financing the operations and debt service of NVCJA. NVCJA was established to provide training to local law enforcement officers. The City appoints members of the governing body of NVCJA, however, it does not retain an ongoing financial interest in NVCJA. The City paid NVCJA approximately \$37,000 for its share of the operating and debt service costs for the fiscal year ended June 30, 2004. These are recorded as expenses in the General Fund.

G. Joint Ventures

1. *Northern Virginia Transportation Commission (NVTC)*

The NVTC is a joint venture among the cities of Alexandria, Fairfax, and Falls Church and the counties of Arlington, Fairfax, and Loudoun. It was established to improve the transportation systems composed of transit facilities, public highways, and other modes of transportation. The Commonwealth of Virginia has authorized a 2% fuel tax to be used for transportation systems through NVTC. While each jurisdiction effectively controls NVTC's use of motor fuel tax proceeds from that jurisdiction, they do not have an explicit measurable equity interest in NVTC. Information regarding NVTC is provided in NVTC's separate, published financial statements, which are available to the general public from its offices at 4350 North Fairfax Drive, Suite 720, Arlington, VA 22204.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2004

2. *Washington Metropolitan Area Transit Authority (WMATA)*

The City participates in a joint venture with other local jurisdictions to share in the cost of a regional transportation system. The City does not maintain an equity interest in WMATA. The City is required to make certain contributions annually to WMATA pursuant to the Interjurisdictional Funding Agreement for Bus Service and the Fifth Interim Capital Contributions Agreement, which were executed in fiscal years 1999 and 1992, respectively. During the fiscal year ended June 30, 2004, the City's required contributions amounted to approximately \$1.3 million, of which the City paid approximately \$245,000 from the General Fund and approximately \$1.1 million through its participation in the NVTCT. The City anticipates its annual required contribution in fiscal year 2005 to be consistent with fiscal year 2004. Complete financial statements of WMATA may be obtained from WMATA, 600 5th Street, NW, Washington, DC 20001.

H. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

Formal budgetary integration is employed as a management control device during the year. Budgets for all governmental funds of the primary government and component units are adopted by the City Council on an annual basis consistent with GAAP with the exception of capital leases and refundings. The Council adopts project length budgets for the capital projects funds.

The following procedures are used by the City in establishing the budgetary data reflected in the financial statements:

- a. On a date fixed by the Council, the City Manager submits to the Council budgets for the general operation of the City government for the fiscal year commencing July 1.
- b. Public hearings are conducted to obtain citizen comments.
- c. The budget is legally enacted through passage of an appropriation ordinance. If, for any reason, the Council fails to adopt the appropriation ordinance prior to July 1, the previous fiscal year's budget remains in effect on a month-to-month basis until the Council adopts the budgets.
- d. The appropriation ordinance places legal restrictions on expenditures at the fund level. Only the Council can revise the appropriation for each fund. The City Manager is authorized to transfer unencumbered balances within departments.
- e. The action of the Council on the school budget relates to the total budget only and the School Board has the authority to expend at its discretion the sum appropriated for its use, provided that if it receives an appropriation greater or less than its original request, it must revise its estimates of expenditures and adjust appropriations accordingly. The School Board has the power to order transfers from one item of appropriation to another during the course of the fiscal year.
- f. Unencumbered appropriations lapse on June 30 for all City units except for those of the Capital Projects Fund, which are carried into the following year on a continuing appropriation basis.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2004

- g. Original and final budgeted amounts are shown; amendments were not significant in relation to the original budget except for the amendments related to school construction. Budget amendments may be approved by the City Council subsequent to adoption of the original budget throughout the year.

III. DETAILED NOTES ON ALL FUNDS

A. Cash, Cash Equivalents and Investments

1. Deposits

As of June 30, 2004, all of the reporting entity's deposits were covered by federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act (Act). The Act provides for the pooling of collateral pledged with the Treasurer of Virginia to secure public deposits as a class. No specific collateral can be identified as security for one public depositor and public depositors are prohibited from holding collateral in their name as security for deposits. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks and savings and loan associations. A multiple financial institution collateral pool that provides for additional assessments is similar to depository insurance. If any member financial institution fails, the entire collateral pool becomes available to satisfy the claims of governmental entities. If the value of the pool's collateral were inadequate to cover the loss, additional amounts would be assessed on a pro rata basis to the members of the pool. Therefore, funds deposited in accordance with the requirements of the Act are considered to be fully insured.

The following is a summary of the reporting entity's public deposits and petty cash as of June 30, 2004:

	Carrying Value	Bank Balance
Deposits:		
Primary government	\$ 636,951	\$ 1,690,685
Component units	20,066	29,694
Total deposits	657,017	1,720,379
Petty Cash:		
Primary government	3,401	-
Component units	4,300	-
Total petty cash	7,701	-
Total Deposits and Petty Cash	\$ 664,718	\$ 1,720,379

The differences between carrying values and bank balances generally result from outstanding checks and deposits in transit as of June 30, 2004.

2. Allowed Investments

Except for its pension funds, under the Virginia Investment of Public Funds Act, the reporting entity is authorized to purchase the following investments:

- Commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2004

- Money market funds
- Bankers acceptances
- Repurchase agreements
- Medium term corporate notes
- Local Government Investment Pool (LGIP) managed by the Commonwealth Department of the Treasury.
- U.S. Treasury and agency securities
- Obligations of the Asian Development Bank
- Obligations of the African Development Bank
- Obligations of the International Bank for Reconstruction and Development
- Obligations of the Commonwealth of Virginia and its instrumentalities
- Obligations of counties, cities, towns, and other public bodies located within the Commonwealth of Virginia
- Obligations of states and local government units located within other states
- Savings accounts or time deposits in any bank or savings and loan association within the Commonwealth that complies with the Virginia Security for Public Deposits Act

3. *Pension Fund Investments*

The authority to establish pension funds is set forth in the Code of Virginia, which authorizes the following investments for pension funds:

- U.S. Treasury and agency securities
- Obligations of the Commonwealth of Virginia and its instrumentalities
- Obligations of counties, cities, towns, and other public bodies located within the Commonwealth of Virginia
- Obligations of states and local government units located within other states
- Obligations of the Asian Development Bank
- Obligations of the African Development Bank
- Obligations of the International Bank for Reconstruction and Development

In addition, the Code of Virginia allows for investments of pension funds in other securities, including common and preferred stocks and corporate bonds, which meet the standard of judgment and care set forth in the Code.

4. *Custodial Credit Risk Categories*

The reporting entity's investments are categorized into the following three categories:

- a. Category 1 – includes investments that are insured or registered or for which the reporting entity or its safekeeping agent in the reporting entity's name holds the securities;
- b. Category 2 – includes uninsured or unregistered investments for which the securities are held by the counterparty's trust department or safekeeping agent in the reporting entity's name; and
- c. Category 3 – includes uninsured and unregistered investments for which the securities are held by the counterparty or its trust department or safekeeping agent but not in the reporting entity's name.

Mutual funds and investments with the LGIP are not categorized because such investments are not evidenced by specific securities.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2004

The reporting entity's investments, which are reported at fair value, as of June 30, 2004 are as follows:

	Category			Fair
	1	2	3	Value
Categorized investments:				
Repurchase agreements	\$ -	\$ -	\$ 5,074,400	\$ 5,074,400
U.S. Government securities	35,004,755	-	-	35,004,755
Pension Trust Funds:				
Common and Preferred Stocks	27,730,233	-	-	27,730,233
Corporate Bonds	15,351,248	-	-	15,351,248
	<u>\$ 78,086,236</u>	<u>\$ -</u>	<u>\$ 5,074,400</u>	<u>83,160,636</u>
Uncategorized investments:				
Local Government Investment Pool				28,665,330
Mutual Funds – Pension Trust Funds				<u>19,320,290</u>
Total investments				<u>\$ 131,146,256</u>
Cash in banks and on hand				<u>664,718</u>
Total cash and investments				<u><u>\$ 131,810,974</u></u>

Cash, cash equivalents and investment balances are shown in the financial statements as follows:

<u>Statement of Net Assets (Exhibit I)</u>	
Cash and cash equivalents	
Primary Government	\$ 39,073,106
Component Units	832,696
Investments	
Primary Government	26,652,644
<u>Statement of Fiduciary Net Assets (Exhibit XI)</u>	
Cash and cash equivalents	
Pension Trust Funds	941,299
Agency Funds	1,909,458
Investments	
Pension Trust Funds	<u>62,401,771</u>
Total	<u><u>\$ 131,810,974</u></u>

During 2004, the City issued bonds in the amount of \$25,000,000 for the construction and renovation of schools. The unspent portion of the proceeds of \$24,768,022 is restricted.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2004

B. Receivables

Receivables and allowances for uncollectible receivables of the primary government as of June 30, 2004, consist of the following:

	General Fund	Water Fund	Sewer Fund	Total	Fiduciary Funds	Total Primary Government
Receivables:						
Accounts	\$ 197,852	\$ 2,791,004	\$ 595,748	\$ 3,584,604	\$ 477,408	\$ 4,062,012
Accrued interest	1,022,122	28,238	-	1,050,360	-	1,050,360
Property taxes:						
Delinquent	2,103,051	-	-	2,103,051	-	2,103,051
Not yet due	15,667,134	-	-	15,667,134	-	15,667,134
Total receivables	18,990,159	2,819,242	595,748	22,405,149	477,408	22,882,557
Allowances for uncollectibles:						
Accounts	-	62,000	11,000	73,000	-	73,000
Property taxes:						
Delinquent	244,913	-	-	244,913	-	244,913
Not yet due	-	-	-	-	-	-
Total allowances for uncollectibles	244,913	62,000	11,000	317,913	-	317,913
Total Net Receivables	\$ 18,745,246	\$ 2,757,242	\$ 584,748	\$ 22,087,236	\$ 477,408	\$ 22,564,644

Delinquent property taxes receivable from taxpayers in the General Fund as of June 30, 2004, consist of the following:

Year of Levy	Personal		
	Real Estate	Property	Total
2004	\$ 808,933	\$ -	\$ 808,933
2003	185,365	372,793	558,158
2002	96,034	190,125	286,159
2001	48,453	99,830	148,283
Prior Years	162,519	138,999	301,518
Total delinquent taxes	1,301,304	801,747	2,103,051
Allowances for uncollectibles			(244,913)
Net delinquent tax receivables			\$ 1,858,138

The City's real estate tax is levied at a rate enacted by City Council on the assessed value of property located in the City as determined by the City's real estate assessor as of January 1 of each year. Properties are assessed at 100% of fair market value of all land and improvements. Real property taxes are levied when the budget is adopted and collected in two installments due on June 5 and December 5. A lien attaches to the property at the time the real estate taxes are levied at January 1. For purposes of reporting, Code Section 58.1-3922 states that taxes are not reported as delinquent until after the last installment is due. Based on collection history of real property taxes, the City has not provided for an allowance for uncollectibles.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2004

Personal property taxes on vehicle and business property are levied as of January 1 of each year, based on their estimated fair market value, and are due on October 5. The allowance of \$244,913 is based on prior collections.

The City reports real estate and personal property taxes (net of allowances) assessed for calendar year 2004 as receivables because the City has an enforceable legal claim to these resources at June 30, 2004; however, some of these resources, which amount to \$12,107,064 for real property and \$3,560,070 for personal property, will not be available to the City until fiscal year 2005 and are therefore recognized as deferred revenue. A detailed breakdown of the components of deferred revenue at June 30, 2004 can be found at note III E.

Receivables of component units as of June 30, 2004, consist of the following:

	School Board
Receivables:	
Accounts	\$ 59,525
Total receivables	59,525
Allowances for uncollectibles	-
Total net receivables	\$ 59,525

Based on prior years collection history, no allowance is deemed necessary for the receivables of the component units.

C. Interfund Balances and Transfers

The City's cash receipt and disbursement transactions are initiated in the General Fund. Amounts applicable to the other funds are transferred thereto through interfund receivable and payable accounts. Interfund receivables and payables typically result when funds overdraw their share of the pooled cash. All amounts are expected to be paid within one year. The following comprise the interfund balances as of June 30, 2004:

	Interfund Receivables	Interfund Payables
Primary Government:		
General Fund	\$ -	\$ 1,766,013
Capital Improvements Fund	951,981	-
Enterprise Funds:		
Water	163,053	-
Sewer	14,091	-
Fiduciary Funds:		
Pension Trust Funds	-	55,093
Agency Funds	692,001	20
Total primary government	\$ 1,821,126	\$ 1,821,126

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
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The primary purpose of interfund transfers is to provide funding for operations and capital projects. Interfund transfers for the year ended June 30, 2004, are as follows:

	Transfers In	Transfers Out
Primary Government:		
General Fund	\$ 4,713,374	\$ 30,600,000
Capital Improvements Fund	30,600,000	-
Enterprise Funds:		
Water	-	4,682,874
Sewer	-	30,500
Total primary government	\$ 35,313,374	\$ 35,313,374

D. Capital Assets

Capital assets activity for the primary government for the year ended June 30, 2004, is as follows:

	Balances July 1, 2003	Increases	Decreases	Balances June 30, 2004
<u>Primary Government:</u>				
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 4,048,900	\$ -	\$ -	\$ 4,048,900
Construction in progress	312,425	6,333,190	-	6,645,615
Total capital assets not being depreciated	4,361,325	6,333,190	-	10,694,515
Capital assets being depreciated:				
Buildings and systems	32,167,893	9,718	-	32,177,611
Improvements other than buildings	2,262,103	-	-	2,262,103
Machinery and equipment	6,711,073	618,393	-	7,329,466
Software	1,210,144	101,465	-	1,311,609
Infrastructure	8,275,585	230,000	-	8,505,585
Library collections	1,823,454	182,962	129,947	1,876,469
Total capital assets being depreciated	52,450,252	1,142,538	129,947	53,462,843
Less accumulated depreciation for:				
Buildings and systems	8,968,401	639,897	-	9,608,298
Improvements other than buildings	915,053	112,149	-	1,027,202
Machinery and equipment	3,959,438	540,218	-	4,499,656
Software	810,499	273,687	-	1,084,186
Infrastructure	4,618,653	167,142	-	4,785,795
Library collections	1,265,025	214,098	129,947	1,349,176
Total accumulated depreciation	20,537,069	1,947,191	129,947	22,354,313
Total capital assets, being depreciated, net	31,913,183	(804,653)	-	31,108,530
Total capital assets, net - Governmental activities	\$ 36,274,508	\$ 5,528,537	\$ -	\$ 41,803,045

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2004

	Balances			Balances
	July 1, 2003	Increases	Decreases	June 30, 2004
<u>Primary Government (continued):</u>				
<u>Business-type activities:</u>				
<u>Water</u>				
Capital assets not being depreciated:				
Land	\$ 2,594,882	\$ -	\$ -	\$ 2,594,882
Construction in Progress	1,769,966	1,685,437	1,391,493	2,063,910
Total capital assets not being depreciated	4,364,848	1,685,437	1,391,493	4,658,792
Capital assets being depreciated:				
Buildings and systems	66,312,678	4,077,918	65,723	70,324,873
Machinery and equipment	947,614	-	42,000	905,614
Total capital assets being depreciated	67,260,292	4,077,918	107,723	71,230,487
Less accumulated depreciation for:				
Buildings and systems	28,835,970	1,355,935	52,578	30,139,327
Machinery and equipment	611,294	64,541	4,200	671,635
Total accumulated depreciation	29,447,264	1,420,476	56,778	30,810,962
Total capital assets being depreciated, net	37,813,028	2,657,442	50,945	40,419,525
Total capital assets, net - Water	42,177,876	4,342,879	1,442,438	45,078,317
<u>Sewer</u>				
Capital assets not being depreciated:				
Construction in progress	5,120	-	-	5,120
Total capital assets not being depreciated	5,120	-	-	5,120
Capital assets being depreciated:				
Buildings and systems	3,535,339	185,838	-	3,721,177
Machinery and equipment	100,700	-	-	100,700
Total capital assets being depreciated	3,636,039	185,838	-	3,821,877
Less accumulated depreciation for:				
Buildings and systems	1,376,248	51,180	-	1,427,428
Machinery and equipment	44,057	12,588	-	56,645
Total accumulated depreciation	1,420,305	63,768	-	1,484,073
Total capital assets being depreciated, net	2,215,734	122,070	-	2,337,804
Total capital assets, net - Sewer	2,220,854	122,070	-	2,342,924
Total capital assets, net - Business-type activities	44,398,730	4,464,949	1,442,438	47,421,241
Total capital assets, net - Primary Government	\$ 80,673,238	\$ 9,993,486	\$ 1,442,438	\$ 89,224,286

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2004

Capital assets activity for component units for the year ended June 30, 2004, is as follows:

	Balances		Balances	
	July 1, 2003	Increases	Decreases	June 30, 2004
<u>Component Units</u>				
School Board:				
Capital assets not being depreciated:				
Land	\$ 743,354	\$ -	\$ -	\$ 743,354
Total capital assets not being depreciated	743,354	-	-	743,354
Capital assets being depreciated:				
Buildings and system	922,669	528,477	-	1,451,146
Machinery and equipment	1,155,540	138,090	-	1,293,630
Library collections	436,438	-	-	436,438
Total capital assets being depreciated	2,514,647	666,567	-	3,181,214
Less accumulated depreciation for:				
Buildings and system	69,879	31,845	-	101,724
Machinery and equipment	541,636	107,372	-	649,008
Library collections	332,458	67,130	-	399,588
Total accumulated depreciation	943,973	206,347	-	1,150,320
Total capital assets, net - School Board	2,314,028	460,220	-	2,774,248
Nonmajor Component Units:				
Capital assets not being depreciated:				
Land	517,255	-	-	517,255
Total capital assets not being depreciated	517,255	-	-	517,255
Total capital assets - Nonmajor Component Units	517,255	-	-	517,255
Total capital assets, net - Component Units	\$ 2,831,283	\$ 460,220	\$ -	\$ 3,291,503

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2004

Depreciation expense for the year ended June 30, 2004, charged to the functions of the primary government and component units is as follows:

	Primary Government	Component Units	Total
<u>Primary Government:</u>			
Governmental activities:			
General government administration	\$ 216,128	\$ -	\$ 216,128
Judicial administration	36,094	-	36,094
Public safety	407,272	-	407,272
Public works	462,554	-	462,554
Health and welfare	3,065	-	3,065
Education	475,313	-	475,313
Parks, recreation, and cultural	342,892	-	342,892
Community development	3,203	-	3,203
Economic development	670	-	670
Total depreciation expense - Governmental activities	1,947,191	-	1,947,191
Business-type activities:			
Water administration	1,420,476	-	1,420,476
Sewer administration	63,768	-	63,768
Total depreciation expense - Business-type activities	1,484,244	-	1,484,244
Total depreciation expense - Primary Government	3,431,435	-	3,431,435
<u>Component Units:</u>			
School Board			
Education	-	206,347	206,347
Total depreciation expense - Component Units	\$ -	\$ 206,347	\$ 206,347
Total depreciation expense - Entity-Wide	\$ 3,431,435	\$ 206,347	\$ 3,637,782

E. Deferred Revenue

Governmental activities and funds defer revenue recognition in connection with resources that have been received, but not yet earned. Governmental funds also report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. As of June 30, 2004, the following comprise the deferred revenue reported in the governmental activities and funds:

	Governmental Activities	Governmental Funds
Unavailable:		
Delinquent property taxes	\$ -	\$ 1,652,610
Property taxes not yet due	17,545,081	17,545,081
Total deferred revenue	\$ 17,545,081	\$ 19,197,691

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2004

F. Long-term Obligations

The following is a summary of changes in the government-wide long-term obligations of the reporting entity for the year ended June 30, 2004:

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Due Within One Year
<u>Primary Government</u>					
Governmental activities:					
General obligation bonds payable	\$ 25,495,000	\$ 32,340,000	\$ 9,885,000	\$ 47,950,000	\$ 1,950,000
Premium on bond issuance	-	1,056,396	21,059	1,035,337	-
Compensated absences	1,382,373	1,180,330	1,136,327	1,426,376	772,570
Obligations under capital leases	321,816	442,728	167,025	597,519	185,828
Total long-term debt - Governmental activities	27,199,189	35,019,454	11,209,411	51,009,232	2,908,398
Business-type activities:					
Compensated absences - Water Fund	414,065	301,247	323,778	391,534	205,278
Compensated absences - Sewer Fund	9,055	18,179	12,566	14,668	8,516
Total long-term debt - Business-type activities	423,120	319,426	336,344	406,202	213,794
Total long-term debt - Primary Government	27,622,309	35,338,880	11,545,755	51,415,434	3,122,192
<u>Component Units</u>					
School Board:					
Compensated absences	707,608	388,100	386,022	709,686	284,474
Obligations under capital leases	136,223	138,090	90,471	183,842	59,820
Total long-term debt - School Board	843,831	526,190	476,493	893,528	344,294
Total long-term debt - Component Units	843,831	526,190	476,493	893,528	344,294
Total long-term debt	\$ 28,466,140	\$ 35,865,070	\$ 12,022,248	\$ 52,308,962	\$ 3,466,486

1. General Obligation Bonds

General obligation bonds have been issued to provide funding for long-term capital improvements. In addition, they have been issued to refund outstanding general obligation bonds when market conditions enabled the City to achieve significant reductions in its debt service payments. Such bonds are direct obligations of the City, and the full faith and credit of the City are pledged as security. The City is required to submit to public referendum for authority to issue general obligation bonds. At June 30, 2004, all authorized general obligation bonds have been issued. The following are the general obligation bonds that were outstanding as of June 30, 2004:

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
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\$8,140,000 General Improvement bonds issued December 15, 1995 to refund 1991 General Obligation bonds; variable amounts maturing annually with interest payable semi-annually; final payment due on April 1, 2011; interest at various rates	\$ 5,310,000
\$9,000,000 General Improvement bonds issued June 1, 2000; variable amounts maturing annually with interest payable semi-annually; final payment due on December 15, 2020; interest at various rates	8,220,000
\$2,155,000 School Construction bonds, consolidated refunding bonds issued December 1993 by the Virginia Public School Authority (VPSA) to replace the 1968 bond issues; interest at various rates; variable amounts maturing through December 2008	570,000
\$2,445,000 School Construction bonds issued May 2, 1996 by VPSA; interest at various rates; variable amounts maturing through January 15, 2017	1,510,000
\$32,340,000 School Construction & refunding bonds issued March 18, 2004; interest at various rates; variable amounts maturing through April 1, 2024	32,340,000
Total General Obligation Bonds Payable	<u>\$ 47,950,000</u>

Annual debt service requirements to maturity for the long-term obligations serviced by the General Fund as of June 30, 2004 are summarized as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2005	\$ 1,950,000	\$ 1,861,528	\$ 3,811,528
2006	2,790,000	1,921,154	4,711,154
2007	2,870,000	1,816,269	4,686,269
2008	2,955,000	1,705,940	4,660,940
2009	3,025,000	1,594,108	4,619,108
2010-2014	13,880,000	6,107,461	19,987,461
2015-2019	9,610,000	3,379,752	12,989,752
2020-2024	9,130,000	1,251,857	10,381,857
2025	1,740,000	35,887	1,775,887
Total	<u>\$ 47,950,000</u>	<u>\$ 19,673,956</u>	<u>\$ 67,623,956</u>

On March 17, 2004 the City issued \$7,340,000 of general obligation bonds to refund \$8,145,000 of outstanding 1993 Series general obligation bonds in connection with the general obligation bonds issued for school construction. The current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$113,750. This difference, reported in the accompanying Government-wide Statement of Net Assets as a deduction from noncurrent liabilities, is being charged to operations through the fiscal year 2014 using straight-line amortization. The refunding resulted in a net increase in cash outflow of approximately \$438,000 and an economic gain of approximately \$238,000.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
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As of June 30, 2004, the City's legal debt limit is approximately \$232,000,000 and its debt margin is approximately \$184,100,000.

2. Obligations Under Capital Leases

The City and School Board lease equipment, vehicles and buses under various capital leases expiring at various dates through 2009. All leases are non-cancelable except that they are contingent upon City Council appropriating funds for each year's payment.

The assets acquired through capital leases are as follows:

	Primary Government	
	Governmental Activities	Component Unit School Board
Asset:		
Machinery and equipment	\$ 1,059,659	\$ 468,486
Less: accumulated depreciation	(429,654)	(104,747)
Total	<u>\$ 630,005</u>	<u>\$ 363,739</u>

The future minimum lease payments and net present value of these minimum lease payments as of June 30, 2004 are as follows:

	Primary Government	
Fiscal Year Ending June 30	Governmental Activities	Component Unit School Board
2005	\$ 213,958	\$ 68,560
2006	209,999	60,125
2007	152,045	43,719
2008	64,229	29,738
2009	12,164	-
Total minimum lease payments	<u>652,395</u>	<u>202,142</u>
Less: amount representing interest	<u>(54,876)</u>	<u>(18,300)</u>
Present value of minimum lease payments	<u>\$ 597,519</u>	<u>\$ 183,842</u>

G. Long-term Commitments

1. Operating Lease Commitments

The City and School Board lease office facilities and other equipment under various long-term lease agreements. Total costs for such leases were \$360,116 to the City and \$233,502 to the School Board for the fiscal year ended June 30, 2004. The future minimum lease payments for these leases are shown in the following page.

CITY OF FALLS CHURCH, VIRGINIA
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Fiscal Year Ended June 30	Primary Government	
	Governmental Activities	Component Unit School Board
2005	\$ 224,010	\$ 226,857
2006	8,504	199,405
2007	4,023	79,015
2008	1,006	30,828
2009	-	29,688
Total	\$ 237,543	\$ 565,793

2. Long-term Construction and Improvement Contracts

The City has the following active construction and improvement commitments as of June 30, 2004:

Project	Spent-to-Date	Remaining Commitment
Governmental activities:		
Broad Street Streetscape	\$ 273,127	\$ 42,305
Kent Street Drainage	11,230	18,770
Hillwood Avenue improvements	310,287	39,838
Traffic controller replacement	55,085	73,451
George Mason Middle School construction	5,822,028	19,849,258
Mt. Daniel Elementary School renovation	9,950	143,105
Total governmental activities	6,481,707	20,166,727
Business-type activities:		
<u>Water</u>		
Scotts Run	1,811	17,185
Arlington Boulevard	96,310	103,498
Graham Road	961,245	229,456
Boulevard Heights	616,856	26,174
<u>Sewer</u>		
Sanitary Sewer Improvement Study	143,067	183,943
Total business-type activities	1,819,289	560,256
Total	\$ 8,300,996	\$ 20,726,983

3. Other Post-employment Benefits

The City provides post-retirement health care insurance benefits for employees who are eligible for retirement benefits. Currently, approximately 74 retirees (including former City and School Board employees) are receiving these benefits. Under City Council resolution number 82-20, the City pays one-half of the health insurance premiums for these employees. These costs are financed on a pay-as-you-go basis. For fiscal year 2004, the cost of these benefits was approximately \$207,000 to the City and approximately \$0 to the School Board.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
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H. Return on Equity Transfer

During the fiscal year ended June 30, 2004, the Water Fund transferred \$4,625,874 to the General Fund based on a calculation of 7.5% of total fund equity in the Water Fund at June 30, 2002. This is a transfer of excess operating funds, which, per City Council, can then be reappropriated for General Fund expenditures.

IV. RETIREMENT PLANS

Full time, salaried employees of the City and School Board participate in one of three retirement plans, the Virginia Retirement System (VRS), the basic City pension plan, and the City's police pension plan.

A. Virginia Retirement System

1. Plan Description

The City and the School Board contribute to the VRS, a cost-sharing multiple-employer public employee (for School Board employees) and an agent multiple-employer public employee (for constitutional offices) defined pension plans administered by the Commonwealth of Virginia for its political subdivisions. All full time salaried employees of constitutional offices within the City (i.e., employees of the office of the Commissioner of Revenue, the office of the Treasurer and the Sheriff's office), as well as qualifying (working at least 80% of full time) teachers and other professionals from the School Board participate in the VRS.

Benefits vest after five years of creditable service. Employees are eligible for an unreduced retirement benefit at age 65 with five years of service (age 60 for participating law enforcement officers and firefighters) and at age 50 with 30 years of service for participating employees (age 50 with 25 years for participating law enforcement officers and firefighters). Employees who retire with a reduced benefit at age 55 (age 50 for participating law enforcement officers and firefighters) with at least five years of credited service are entitled to an annual retirement benefit payable monthly for life in an amount equal to 1.7 % of their average final salary (AFS) for each year of credited service. An optional reduced retirement benefit is available to members of VRS as early as age 50 with 10 years of credited service. In addition, retirees qualify for annual cost-of-living increases beginning in their second year of retirement. AFS is defined as the highest consecutive 36 months of salary. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. Participating law enforcement officers and firefighters may receive a monthly benefit supplement if they retire prior to age 65. The VRS also provides death and disability benefits. Title 51.1 of the *Code of Virginia* (1950), as amended, assigns the authority to establish and amend benefit provisions to the State Legislature.

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be obtained by writing to the System at P.O. Box 2500, Richmond, VA 23218-2500.

2. Funding Policy

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5% of their annual salary to the VRS. The School Board has assumed this 5% member contribution for its employees. Beginning in May 2003, the City also assumed this contribution for eligible City employees. Prior to this, City employees paid the contribution. In addition, the City and the School

CITY OF FALLS CHURCH, VIRGINIA
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Board are required to contribute the remaining amounts necessary to fund their participation in the VRS using the actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees. The City's and the School Board's contribution rate for the fiscal year ended 2004 were 0.0% and 4.44% of annual covered payroll, respectively.

3. Annual Pension Costs

The City's annual pension cost and contributions made during fiscal year 2004 was \$34,203. The School Board's annual pension cost and contributions made during fiscal year 2004 was \$1,319,711. These include the contributions made by the City and the School Board on behalf of their respective employees.

The following table shows the required annual pension costs and the percentage contributed for the City and School Board employees for the last three years:

Fiscal Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
City			
2004	\$ 34,203	100%	\$ -
2003	4,465	100%	-
2002	744	100%	-
School Board			
2004	1,319,711	100%	-
2003	1,220,949	100%	-
2002	1,005,544	100%	-

B. Basic and Police Pension Plans

1. Plan Description

The City's Basic Pension Plan is a cost sharing multiple-employer defined benefit pension plan, covering all permanent employees of the City who are scheduled to work twenty hours or more per week, except police officers who are covered under the Police Pension Plan. School Board employees who work less than 80% of full time and are not eligible to participate in VRS, but meet the City pension plan's requirements, are eligible for the City's Basic Pension plan.

The Police Pension Plan is a single-employer defined benefit pension plan covering the City's police officers that work more than twenty hours per week.

Both Plans are authorized by the City Council, and are administered by the City. Benefit provisions are established and amended by City ordinances. Participants are 100% vested after five years of participation.

CITY OF FALLS CHURCH, VIRGINIA
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Member and employee contributions to the Plans are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due in accordance with the terms of the Plans.

Upon retirement, a participant in either of the two City Plans would receive a monthly retirement allowance, which is determined based on a certain percentage of the participant's average final compensation at the date of retirement and the number of years of the participant's credited service. In the event of death prior to retirement eligibility, the participant's accumulated contributions are paid to the participant's designated beneficiaries in a lump sum. If a participant were vested and eligible for early or regular retirement at time of death, the designated beneficiary would receive a monthly retirement allowance.

The Plans do not issue separate financial statements.

The City's membership in the Basic and Police Pension Plans as of June 30, 2004 were as follows:

	Basic	Police
Retirees and beneficiaries	150	26
Terminated vested members	63	1
Active members	303	30
Total	516	57

2. Funding Policy

The City Council establishes and may amend the contribution requirements of both plans. The City is required to contribute at an actuarially-determined rate. For fiscal year 2004, the contributions rate was 0% of annual covered payroll. During fiscal year 2004, the City Council amended both plans so that employees are no longer required to contribute. In 2001, the plan was amended to allow permanent employees who were formerly temporary employees who worked more than 20 hours per week to buy back that period for which they were not eligible due to their temporary status. The rate of contribution by these employees is 5% of current salary for each month they are buying back. Administrative costs are borne by the assets of the plans.

3. Annual Pension Cost

For the fiscal years ended June 30, 2004, 2003, and 2002, the City's contributions were \$0, which were equal to its annual pension cost for each of the three years for both plans.

The following are the relevant actuarial information for the Basic and Police Pension Plans:

CITY OF FALLS CHURCH, VIRGINIA
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	Basic	Police
Contribution rate:		
City	0%	0%
Plan members	0%	0%
Annual pension cost	—	—
Contributions made	—	—
Actuarial valuation date	July 1, 2003	July 1, 2003
Actuarial cost method	Aggregate entry age actuarial cost method	Aggregate entry age actuarial cost method
Amortization method	Level dollar (closed)	Level dollar (closed)
Asset valuation method	Smoothed market value	Smoothed market value
Actuarial assumptions:		
Investment rate of return	8%	8%
Projected salary increases	5%	5%
Cost of living adjustments	3%	3%

4. Financial Statements for Basic and Police Pension Plans

The following is the combining schedule of fiduciary net assets for the City's Basic and Police Pension Plans, the City's pension trust funds, as of June 30, 2004:

	Basic Plan	Police Plan	Total
ASSETS			
Cash and cash equivalents	\$ 657,163	\$ 284,136	\$ 941,299
Investments, at fair value:			
Corporate equity securities	21,700,086	6,030,147	27,730,233
Corporate bonds	12,081,166	3,270,082	15,351,248
Mutual funds	14,958,402	4,361,888	19,320,290
Total investments	48,739,654	13,662,117	62,401,771
Interest and dividend receivable	15,853	3,267	19,120
Total Assets	49,412,670	13,949,520	63,362,190
LIABILITIES			
Due to general fund	40,011	15,082	55,093
Total Liabilities	40,011	15,082	55,093
NET ASSETS			
Held in trust for pension benefits	\$ 49,372,659	\$ 13,934,438	\$ 63,307,097

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The following is the combining schedule of changes in fiduciary net assets for the City's Basic and Police Pension Plans, for the year ended June 30, 2004:

	Basic Plan	Police Plan	Total
ADDITIONS			
Employee contributions	\$ 30,988	\$ -	\$ 30,988
Interest	187,182	97,105	284,287
Dividends	478,815	134,234	613,049
Net increase in the fair value of investments	5,169,890	1,332,343	6,502,233
Total investment earnings	5,835,887	1,563,682	7,399,569
Less investment expense	(110,160)	(37,113)	(147,273)
Net investment earnings	5,725,727	1,526,569	7,252,296
Total Additions	5,756,715	1,526,569	7,283,284
DEDUCTIONS			
Benefits	1,746,666	409,426	2,156,092
Administration	66,384	13,042	79,426
Total Deductions	1,813,050	422,468	2,235,518
Change in Net Assets	3,943,665	1,104,101	5,047,766
Net Assets - Beginning of Year	45,429,285	12,830,046	58,259,331
Net Assets - End of Year	\$ 49,372,950	\$ 13,934,147	\$ 63,307,097

C. Required Supplementary Information

Pension trend data, including the schedules of funding progress and employer contributions, can be found in the required supplementary information section immediately following the notes to the financial statements.

V. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the City carries commercial insurance through the Virginia Municipal Liability Pool (VML).

The City is a member of the Virginia Municipal League Self Insurance Association, also under VML, for workers' compensation. This program is administered by a servicing contractor, which furnishes claims review and processing services.

Each Association member jointly and severally agrees to assume, pay and discharge any liability. The City pays Virginia Municipal League Self Insurance Association contributions and assessments based upon classifications and rates into a designated cash reserve fund out of which expenses of the Association and

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claims awards are to be paid. In the event of a loss deficit and depletion of all available excess insurance, the Association may assess all members in the proportion, which the premium of each bears to the total premiums of all members in the year in which such deficit occurs.

The City continues to carry commercial insurance for all other risks of losses. Settled claims from these risks have not exceeded commercial coverage in any of the last three fiscal years.

The School Board also carries commercial insurance through VML for property, casualty, general liability, automobile coverage. Errors and omissions coverage are provided through the Virginia Risk II pool. Workers' compensation insurance is provided through Wasau insurance. Settled claims from these risks have not exceeded commercial coverage in any of the last three fiscal years.

The total insurance premiums paid by the City and the Schools for the fiscal year ended June 30, 2004 were approximately \$435,000 and \$217,000, respectively.

VI. CONTINGENCIES

The City and School Board receive grant funds, principally from the U.S. government. Expenditures of these funds are subject to audit by the grantor, and the City and School Board are contingently liable to refund amounts received in excess of allowable expenditures. In the opinion of management of the City and School Board, no material refunds will be required as a result of expenditures that may be disallowed by the grantors.

VII. SUBSEQUENT EVENTS

The City is a partner, with the City of Alexandria and Fairfax County, in the Arlington County wastewater treatment plant. In order to meet State and federal regulations, the Arlington plant requires significant capital investment in upgrades. The City's share will be approximately \$7 million. In October the City began the process to borrow its share through the Virginia Resources Authority revolving loan fund.

VIII. FUTURE ACCOUNTING CHANGES

As of June 30, 2004 the Governmental Accounting Standards Board (GASB) had issued the following statements that will be applicable to future financial statements:

- Statement No. 40 – *Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3*. This Statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest rate risk, this Statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified in this Statement also should be disclosed. The statement is effective for fiscal years beginning after June 15, 2004.
- Statement No. 42 - *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This Statement establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This Statement also clarifies and establishes accounting requirements for insurance recoveries. The Statement is effective for fiscal years beginning after December 15, 2004.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2004

- Statement No. 43 - *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This Statement establishes uniform financial reporting standards for OPEB plans and supersedes the interim guidance included in Statement No. 26, *Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans*. The statement is effective for fiscal years beginning after December 15, 2006.
- Statement No. 44 - *Economic Condition Reporting: The Statistical Section—an amendment of NCGA Statement 1*. This Statement amends the portions of the National Council on Governmental Accounting (NCGA) Statement 1, *Governmental Accounting and Financial Reporting Principles* that guide the preparation of the statistical section. The statistical section presents detailed information, typically in ten-year trends, that assists users in utilizing the basic financial statements, notes to the basic financial statements, and required supplementary information to assess the economic condition of a government. The Statement is effective for fiscal years beginning after June 15, 2005.
- Statement No. 45 - *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The Statement is effective for fiscal years beginning after December 15, 2007.



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CITY OF FALLS CHURCH, VIRGINIA
COMPREHENSIVE ANNUAL
FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

REQUIRED SUPPLEMENTARY
INFORMATION





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CITY OF FALLS CHURCH, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS (In Thousands)

1. Basic Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Excess Funded) AAL (c) = (b) - (a)	Funded Ratio (a) / (b)	Annual Covered Payroll (d)	UAAL as a Percent of Covered Payroll (c) / (d)
7/1/2003	\$ 50,955	\$ 32,264	\$ (18,691)	157.9%	\$ 10,280	(181.8%)
7/1/2002	50,564	31,005	(19,559)	163.1%	10,718	(182.5%)
7/1/2001	49,107	29,478	(19,629)	166.6%	9,723	(201.9%)
7/1/1999	41,372	36,329	(5,043)	113.9%	8,801	(57.3%)
7/1/1997	34,348	33,316	(1,032)	103.1%	6,896	(15.0%)

2. Police Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Excess Funded) AAL (c) = (b) - (a)	Funded Ratio (a) / (b)	Annual Covered Payroll (d)	UAAL as a Percent of Covered Payroll (c) / (d)
7/1/2003	\$ 14,391	\$ 10,368	\$ (4,023)	138.8%	\$ 1,644	(244.7%)
7/1/2002	14,237	9,154	(5,083)	155.5%	1,568	(324.2%)
7/1/2001	13,791	8,818	(4,973)	156.4%	1,526	(325.9%)
7/1/1999	11,656	9,182	(2,474)	126.9%	1,224	(202.1%)
7/1/1997	9,801	9,361	(440)	104.7%	1,238	(35.5%)

Note 1: The actuarial assumptions and methods used for the valuation date of July 1, 2003 are disclosed in the Notes to the Financial Statements.

Note 2: The Basic Pension Plan actuarial valuation as of July 1, 2004 reflects an increase in the actuarial accrued liability of approximately \$7 million. This was primarily the result of certain errors in salary information used in producing the actuarial valuations as of July 1, 2003 and July 1, 2002. This will result in an annual required contribution of approximately \$105,000 in FY2005.

**CITY OF FALLS CHURCH, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS**

1. Basic Pension Plan

Plan Year Ended June 30	Annual Required Contribution	% Contributed by Employer
2004	\$ -	100%
2003	-	100%
2002	-	100%
2001	-	100%
2000	-	100%
1999	-	100%

2. Police Pension Plan

Plan Year Ended June 30	Annual Required Contribution	% Contributed by Employer
2004	\$ -	100%
2003	-	100%
2002	-	100%
2001	-	100%
2000	-	100%
1999	-	100%

* Note: The actuarial assumptions and methods used for the valuation date of July 1, 2003 (plan year ended June 30, 2004) are disclosed in the Notes to the Financial Statements.

CITY OF FALLS CHURCH, VIRGINIA
COMPREHENSIVE ANNUAL
FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

OTHER SUPPLEMENTARY
INFORMATION





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CITY OF FALLS CHURCH, VIRGINIA
COMBINING STATEMENT OF AGENCY NET ASSETS
As of June 30, 2004

	Fairfax County Water Authority Fund	Northern Virginia Criminal Justice Academy Fund	Total
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash and cash equivalents	\$ -	\$ 1,909,458	\$ 1,909,458
Other receivables	477,408	-	477,408
Due from general fund	692,001	-	692,001
	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 1,169,409</u>	<u>\$ 1,909,458</u>	<u>\$ 3,078,867</u>
	<u> </u>	<u> </u>	<u> </u>
LIABILITIES			
Due to general fund	\$ -	\$ 20	\$ 20
Due to other governments	1,169,409	1,909,438	3,078,847
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>\$ 1,169,409</u>	<u>\$ 1,909,458</u>	<u>\$ 3,078,867</u>
	<u> </u>	<u> </u>	<u> </u>

CITY OF FALLS CHURCH, VIRGINIA
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
For the Year Ended June 30, 2004

	Balances July 1, 2003	Additions	Deductions	Balances June 30, 2004
Fairfax County Water Authority Fund				
ASSETS				
Other receivables	\$ 467,828	\$ 9,352,934	\$ 9,343,354	\$ 477,408
Due from general fund	818,073	9,347,960	9,474,032	692,001
Total Assets	<u>\$ 1,285,901</u>	<u>\$18,700,894</u>	<u>\$ 18,817,386</u>	<u>\$ 1,169,409</u>
LIABILITIES				
Due to other governments	<u>\$ 1,285,901</u>	<u>\$18,700,894</u>	<u>\$ 18,817,386</u>	<u>\$ 1,169,409</u>
Total Liabilities	<u>\$ 1,285,901</u>	<u>\$18,700,894</u>	<u>\$ 18,817,386</u>	<u>\$ 1,169,409</u>
Northern Virginia Criminal Justice Academy Fund				
ASSETS				
Cash and cash equivalents	<u>\$ 2,084,402</u>	<u>\$ 2,007,183</u>	<u>\$ 2,182,127</u>	<u>\$ 1,909,458</u>
Total Assets	<u>\$ 2,084,402</u>	<u>\$ 2,007,183</u>	<u>\$ 2,182,127</u>	<u>\$ 1,909,458</u>
LIABILITIES				
Due to other governments	\$ 2,084,402	\$ 2,007,163	\$ 2,182,127	\$ 1,909,438
Due to general fund	<u>-</u>	<u>20</u>	<u>-</u>	<u>20</u>
Total Liabilities	<u>\$ 2,084,402</u>	<u>\$ 2,007,183</u>	<u>\$ 2,182,127</u>	<u>\$ 1,909,458</u>
Total				
ASSETS				
Cash and cash equivalents	\$ 2,084,402	\$ 2,007,183	\$ 2,182,127	\$ 1,909,458
Other receivables	467,828	9,352,934	9,343,354	477,408
Due from general fund	<u>818,073</u>	<u>9,347,960</u>	<u>9,474,032</u>	<u>692,001</u>
Total Assets	<u>\$ 3,370,303</u>	<u>\$20,708,077</u>	<u>\$ 20,999,513</u>	<u>\$ 3,078,867</u>
LIABILITIES				
Due to other governments	\$ 3,370,303	\$20,708,057	\$ 20,999,513	\$ 3,078,847
Due to general fund	<u>-</u>	<u>20</u>	<u>-</u>	<u>20</u>
Total Liabilities	<u>\$ 3,370,303</u>	<u>\$20,708,077</u>	<u>\$ 20,999,513</u>	<u>\$ 3,078,867</u>

CITY OF FALLS CHURCH, VIRGINIA
SCHEDULE OF CAPITAL ASSETS BY SOURCES ⁽¹⁾
As of June 30, 2004

GENERAL FIXED ASSETS

Land	\$ 4,048,900
Construction in progress	6,645,615
Buildings and system	32,177,611
Improvements other than buildings	2,262,103
Machinery and equipment	7,329,466
Software	1,311,609
Infrastructure	8,505,585
Library collections	1,876,469
Total Capital Assets	<u>64,157,358</u>
Less accumulated depreciation	<u>(22,354,313)</u>
Net Capital Assets	<u><u>\$ 41,803,045</u></u>

INVESTMENTS IN GENERAL FIXED ASSETS

General fund	\$ 34,439,714
Capital projects fund	<u>29,717,644</u>
Total Investments in General Fixed Assets	<u>64,157,358</u>
Less accumulated depreciation	<u>(22,354,313)</u>
Net Capital Assets	<u><u>\$ 41,803,045</u></u>

(1) Capital assets include fixed assets for the governmental activities.

CITY OF FALLS CHURCH, VIRGINIA
SCHEDULE OF CAPITAL ASSETS BY FUNCTION AND ACTIVITY (1)
As of June 30, 2004

Function and Activity	Land	Buildings and System	Improvements Other Than Buildings	Machinery and Equipment	Software	Infrastructure	Library Collections	Total
General Government Administration:								
General and financial administration	1,170,172	1,878,175	74,294	256,909	952,748	-	-	4,332,298
Elections administration	-	-	-	33,000	-	-	-	33,000
Total General Government	<u>1,170,172</u>	<u>1,878,175</u>	<u>74,294</u>	<u>289,909</u>	<u>952,748</u>	<u>-</u>	<u>-</u>	<u>4,365,298</u>
Judicial Administration:								
Courts	34,222	497,937	10,701	104,594	-	-	-	647,454
Sheriff	-	-	-	112,199	-	-	-	112,199
Total Judicial Administration	<u>34,222</u>	<u>497,937</u>	<u>10,701</u>	<u>216,793</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>759,653</u>
Public Safety:								
Law enforcement	-	-	-	850,859	345,586	-	-	1,196,445
Fire and rescue services	1,378,000	4,459,394	88,960	817,597	-	-	-	6,743,951
Total Public Safety	<u>1,378,000</u>	<u>4,459,394</u>	<u>88,960</u>	<u>1,668,456</u>	<u>345,586</u>	<u>-</u>	<u>-</u>	<u>7,940,396</u>
Public Works:								
Administration	-	-	-	7,442	-	-	-	7,442
Highways, streets and sidewalks	-	-	-	-	-	8,489,756	-	8,489,756
Maintenance of general building and ground	218,525	1,141,243	236,981	2,488,003	-	-	-	4,084,752
Traffic signs and signals	-	-	-	2,034,859	-	-	-	2,034,859
Total Public Works	<u>218,525</u>	<u>1,141,243</u>	<u>236,981</u>	<u>4,530,304</u>	<u>-</u>	<u>8,489,756</u>	<u>-</u>	<u>14,616,809</u>
Health and Welfare:								
Welfare and social services	222,705	130,917	8,936	-	-	-	-	362,558
Total Health and Welfare	<u>222,705</u>	<u>130,917</u>	<u>8,936</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>362,558</u>
Education	-	20,117,061	1,252,346	213,700	-	-	-	21,583,107
Parks, Recreation, and Culture:								
Parks and recreation	1,017,243	3,459,090	576,892	278,405	-	15,829	-	5,347,459
Library	8,033	493,794	12,993	109,180	13,275	-	1,876,469	2,513,744
Total Parks, Recreation, and Culture	<u>1,025,276</u>	<u>3,952,884</u>	<u>589,885</u>	<u>387,585</u>	<u>13,275</u>	<u>15,829</u>	<u>1,876,469</u>	<u>7,861,203</u>
Community Development:								
Planning	-	-	-	16,015	-	-	-	16,015
Total Community Development	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,015</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,015</u>
Economic Development	-	-	-	6,704	-	-	-	6,704
Total Capital Assets Allocated to Function	4,048,900	32,177,611	2,262,103	7,329,466	1,311,609	8,505,585	1,876,469	57,511,743
Less accumulated depreciation	-	(9,608,298)	(1,027,202)	(4,499,656)	(1,084,186)	(4,785,795)	(1,349,176)	(22,354,313)
Net Capital Assets	<u>\$ 4,048,900</u>	<u>\$ 22,569,313</u>	<u>\$ 1,234,901</u>	<u>\$ 2,829,810</u>	<u>\$ 227,423</u>	<u>\$ 3,719,790</u>	<u>\$ 527,293</u>	<u>\$ 35,157,430</u>
Construction in Progress								6,645,615
Total Capital Assets								<u>\$ 41,803,045</u>

(1) Capital assets include fixed assets for the governmental activities.
See accompanying Independent Auditors' Report.

CITY OF FALLS CHURCH, VIRGINIA
SCHEDULE OF CHANGES IN CAPITAL ASSETS BY FUNCTION AND ACTIVITY (1)
As of June 30, 2004

Function and Activity	Fixed Assets July 1, 2003	Additions	Deductions	Fixed Assets June 30, 2004
General Government Administration:				
General and financial administration	4,150,480	181,818	-	4,332,298
Elections administration	33,000	-	-	33,000
Total General Government	<u>4,183,480</u>	<u>181,818</u>	<u>-</u>	<u>4,365,298</u>
Judicial Administration:				
Courts	647,454	-	-	647,454
Sheriff	68,115	44,084	-	112,199
Total Judicial Administration	<u>715,569</u>	<u>44,084</u>	<u>-</u>	<u>759,653</u>
Public Safety:				
Law enforcement	904,202	292,243	-	1,196,445
Fire and rescue services	6,743,951	-	-	6,743,951
Total Public Safety	<u>7,648,153</u>	<u>292,243</u>	<u>-</u>	<u>7,940,396</u>
Public Works:				
Administration	-	7,442	-	7,442
Highways, streets, and sidewalks	8,259,756	230,000	-	8,489,756
Maintenance of general building and ground	3,925,418	159,334	-	4,084,752
Traffic signs and signals	2,034,859	-	-	2,034,859
Total Public Works	<u>14,220,033</u>	<u>396,776</u>	<u>-</u>	<u>14,616,809</u>
Health and Welfare:				
Welfare and social services	362,558	-	-	362,558
Total Health and Welfare	<u>362,558</u>	<u>-</u>	<u>-</u>	<u>362,558</u>
Education	<u>21,583,107</u>	<u>-</u>	<u>-</u>	<u>21,583,107</u>
Parks, Recreation, and Culture:				
Parks and recreation	5,333,015	14,444	-	5,347,459
Library	2,437,222	206,469	129,947	2,513,744
Total Parks, Recreation, and Culture	<u>7,770,237</u>	<u>220,913</u>	<u>129,947</u>	<u>7,861,203</u>
Community Development:				
Planning	16,015	-	-	16,015
Total Community Development	<u>16,015</u>	<u>-</u>	<u>-</u>	<u>16,015</u>
Economic Development	<u>-</u>	<u>6,704</u>	<u>-</u>	<u>6,704</u>
Total Governmental Funds Capital Assets Allocated to Function	56,499,152	1,142,538	129,947	57,511,743
Less accumulated depreciation	<u>(20,537,069)</u>	<u>(1,947,191)</u>	<u>(129,947)</u>	<u>(22,354,313)</u>
Net Governmental Funds Capital Assets	35,962,083	(804,653)	-	35,157,430
Construction in Progress	312,425	6,333,190	-	6,645,615
Net Capital Assets	<u>\$ 36,274,508</u>	<u>\$ 5,528,537</u>	<u>\$ -</u>	<u>\$ 41,803,045</u>

(1) Capital assets include fixed assets for the governmental activities.

**CITY OF FALLS CHURCH, VIRGINIA
CITY OF FALLS CHURCH PUBLIC SCHOOL BOARD
BALANCE SHEET
GOVERNMENTAL FUNDS
As of June 30, 2004**

			Nonmajor Governmental Funds		
	Operating Fund	School Community Service Fund	School Improvement Fund	School Food Service Fund	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 300	\$ 355,231	\$ -	\$ 351,056	\$ 706,587
Accounts receivable	10,253	32,504	-	16,768	59,525
Due from primary government	4,311,066	-	-	-	4,311,066
Due from other governmental units	434,867	-	-	-	434,867
Total Assets	\$ 4,756,486	\$ 387,735	\$ -	\$ 367,824	\$ 5,512,045
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities	\$ 2,921,154	\$ 55,609	\$ -	\$ 38,335	3,015,098
Due to primary government	-	-	395,961	-	395,961
Total Liabilities	2,921,154	55,609	395,961	38,335	3,411,059
Fund Balances:					
Encumbrances	2,996	6,797	-	-	9,793
Unreserved:					
Designated for construction	-	-	-	-	-
Undesignated	1,832,336	325,329	(395,961)	329,489	2,091,193
Total Fund Balances (Deficit)	1,835,332	332,126	(395,961)	329,489	2,100,986
Total Liabilities and Fund Balances	\$ 4,756,486	\$ 387,735	\$ -	\$ 367,824	\$ 5,512,045

**CITY OF FALLS CHURCH, VIRGINIA
CITY OF FALLS CHURCH PUBLIC SCHOOL BOARD
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
As of June 30, 2004**

Fund balances - total governmental funds		\$ 2,100,986
Amounts reported for governmental activities in the Statement of Net Assets (Exhibit I) are different because :		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		
Governmental capital assets	3,924,568	
Less accumulated depreciation	<u>(1,150,320)</u>	2,774,248
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.		
Compensated absences	(709,686)	
Governmental leases payable	<u>(183,842)</u>	(893,528)
Net Assets of Governmental Activities		<u>\$ 3,981,706</u>

CITY OF FALLS CHURCH, VIRGINIA
CITY OF FALLS CHURCH PUBLIC SCHOOL BOARD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2004

			Nonmajor Governmental Funds		
	Operating Fund	School Community Service Fund	School Improvement Fund	School Food Service Fund	Total Governmental Funds
REVENUES					
Revenue from use of money and property	\$ 5,466	\$ 72,260	\$ -	\$ 3,036	\$ 80,762
Charges for services	300,059	874,903	-	434,485	1,609,447
Miscellaneous	52,731	35,851	-	-	88,582
Intergovernmental:					
Federal	632,716	-	-	87,332	720,048
Commonwealth	3,498,698	-	-	6,970	3,505,668
Primary government	20,217,694	422,864	-	-	20,640,558
Total Revenues	24,707,364	1,405,878	-	531,823	26,645,065
EXPENDITURES					
Current:					
Education	23,644,911	1,269,177	-	483,456	25,397,544
Capital outlay	667,321	11,571	387,527	4,735	1,071,154
Debt service:					
Principal	83,068	-	7,403	-	90,471
Interest	7,540	-	1,031	-	8,571
Total Expenditures	24,402,840	1,280,748	395,961	488,191	26,567,740
Excess/(deficiency) of revenues over/(under) expenditures	304,524	125,130	(395,961)	43,632	77,325
Other financing sources/(uses):					
Operating transfers in/(out)	(15,500)	14,500	-	1,000	-
Proceeds from capital leases	138,090	-	-	-	138,090
Total Other Financing Sources/(Uses)	122,590	14,500	-	1,000	138,090
Net Change in Fund Balances	427,114	139,630	(395,961)	44,632	215,415
Fund Balances at Beginning of Year	1,408,218	192,496	-	284,857	1,885,571
Fund Balances (Deficit) at End of Year	\$ 1,835,332	\$ 332,126	\$ (395,961)	\$ 329,489	\$ 2,100,986

**CITY OF FALLS CHURCH, VIRGINIA
CITY OF FALLS CHURCH PUBLIC SCHOOL BOARD
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2004**

Net change in fund balances - total governmental funds	\$	215,415
Amounts reported for governmental activities in the Statement of Activities (Exhibit II) are different because :		
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets.		
Expenditures for capital assets	666,567	
Less current year depreciation	<u>(206,347)</u>	460,220
The issuance of long-term debt (e.g., capital leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. However, issuing debt increases long-term liabilities and the repayment of debt reduces long-term liabilities in the Statement of Net Assets, but these transactions do not affect the Statement of Activities.		
Proceeds from capital leases		(138,090)
Capital lease payments		90,471
Certain expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Change in compensated absence liability		<u>(2,078)</u>
Change in Net Assets of Governmental Activities	<u>\$</u>	<u>625,938</u>

**CITY OF FALLS CHURCH, VIRGINIA
CITY OF FALLS CHURCH PUBLIC SCHOOL BOARD
OPERATING FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES --
BUDGET AND ACTUAL
For the Year Ended June 30, 2004**

	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual	
REVENUES				
Revenue from use of money and property	\$ 22,500	\$ 22,500	\$ 5,466	\$ (17,034)
Charges for services	377,620	377,620	300,059	(77,561)
Miscellaneous	173,850	173,850	52,731	(121,119)
Intergovernmental:				
Commonwealth	3,465,176	3,465,176	3,498,698	33,522
Federal	569,120	569,120	632,716	63,596
Primary government	20,361,729	20,328,894	20,217,694	(111,200)
Total Revenues	24,969,995	24,937,160	24,707,364	(229,796)
EXPENDITURES				
Current:				
Education	24,664,149	24,692,560	23,644,911	1,047,649
Capital outlay	528,346	537,502	667,321	(129,819)
Debt service:				
Principal	98,000	92,598	83,068	9,530
Interest	-	-	7,540	(7,540)
Total Expenditures	25,290,495	25,322,660	24,402,840	919,820
Excess/(deficiency) of revenues over/(under) expenditures	(320,500)	(385,500)	304,524	690,024
Other financing sources/(uses):				
Operating transfers in/(out)	34,500	(15,500)	(15,500)	-
Proceeds from capital leases	-	-	138,090	138,090
Total Other Financing Sources/(Uses)	34,500	(15,500)	122,590	138,090
Net Change in Fund Balances	(286,000)	(401,000)	427,114	828,114
Fund Balances at Beginning of Year	1,408,218	1,408,218	1,408,218	-
Fund Balances at End of Year	\$ 1,122,218	\$ 1,007,218	\$ 1,835,332	\$ 828,114

CITY OF FALLS CHURCH, VIRGINIA
CITY OF FALLS CHURCH PUBLIC SCHOOL BOARD
SCHOOL COMMUNITY SERVICE FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES --
BUDGET AND ACTUAL
For the Year Ended June 30, 2004

	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual	
REVENUES				
Revenue from use of money and property	\$ 54,590	\$ 54,590	\$ 72,260	\$ 17,670
Charges for services	1,079,828	1,079,828	874,903	(204,925)
Miscellaneous	46,218	46,218	35,851	(10,367)
Intergovernmental:				
Primary government	422,864	422,864	422,864	-
Total Revenues	1,603,500	1,603,500	1,405,878	(197,622)
EXPENDITURES				
Current:				
Education	1,478,600	1,529,350	1,269,177	260,173
Capital Outlay	57,400	53,650	11,571	42,079
Total Expenditures	1,536,000	1,583,000	1,280,748	302,252
Excess of revenues over expenditures	67,500	20,500	125,130	104,630
Other financing sources/(uses):				
Operating transfers in/(out)	(35,500)	(35,500)	14,500	50,000
Total Other Financing Sources/(Uses)	(35,500)	(35,500)	14,500	50,000
Net Change in Fund Balances	32,000	(15,000)	139,630	154,630
Fund Balances at Beginning of Year	192,496	192,496	192,496	-
Fund Balances at End of Year	\$ 224,496	\$ 177,496	\$ 332,126	\$ 154,630

**CITY OF FALLS CHURCH, VIRGINIA
CITY OF FALLS CHURCH PUBLIC SCHOOL BOARD
STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
As of June 30, 2004**

	Thomas Jefferson Elementary	Mt. Daniel Elementary	George Mason Middle and High School	Total
ASSETS				
Cash and cash equivalents	\$ 28,904	\$ 15,466	\$ 292,860	\$ 337,230
Total Assets	<u>\$ 28,904</u>	<u>\$ 15,466</u>	<u>\$ 292,860</u>	<u>\$ 337,230</u>
LIABILITIES				
Amounts held for others	\$ 28,904	\$ 15,466	\$ 292,860	\$ 337,230
Total Liabilities	<u>\$ 28,904</u>	<u>\$ 15,466</u>	<u>\$ 292,860</u>	<u>\$ 337,230</u>

**CITY OF FALLS CHURCH, VIRGINIA
CITY OF FALLS CHURCH PUBLIC SCHOOL BOARD
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
For the Year Ended June 30, 2004**

	Balances July 1, 2003	Additions	Deductions	Balances June 30, 2004
THOMAS JEFFERSON ELEMENTARY				
Assets				
Cash and cash equivalents	\$ 31,740	\$ 42,871	\$ 45,707	\$ 28,904
Total Assets	<u>\$ 31,740</u>	<u>\$ 42,871</u>	<u>\$ 45,707</u>	<u>\$ 28,904</u>
Liabilities				
Amounts held for others	\$ 31,740	\$ 42,871	\$ 45,707	\$ 28,904
Total Liabilities	<u>\$ 31,740</u>	<u>\$ 42,871</u>	<u>\$ 45,707</u>	<u>\$ 28,904</u>
MT. DANIEL ELEMENTARY				
Assets				
Cash and cash equivalents	\$ 13,195	\$ 24,901	\$ 22,630	\$ 15,466
Total Assets	<u>\$ 13,195</u>	<u>\$ 24,901</u>	<u>\$ 22,630</u>	<u>\$ 15,466</u>
Liabilities				
Amounts held for others	\$ 13,195	\$ 24,901	\$ 22,630	\$ 15,466
Total Liabilities	<u>\$ 13,195</u>	<u>\$ 24,901</u>	<u>\$ 22,630</u>	<u>\$ 15,466</u>
GEORGE MASON MIDDLE AND HIGH SCHOOL				
Assets				
Cash and cash equivalents	\$ 314,671	\$ 359,457	\$ 381,268	\$ 292,860
Total Assets	<u>\$ 314,671</u>	<u>\$ 359,457</u>	<u>\$ 381,268</u>	<u>\$ 292,860</u>
Liabilities				
Amounts held for others	\$ 314,671	\$ 359,457	\$ 381,268	\$ 292,860
Total Liabilities	<u>\$ 314,671</u>	<u>\$ 359,457</u>	<u>\$ 381,268</u>	<u>\$ 292,860</u>
TOTAL				
Assets				
Cash and cash equivalents	\$ 359,606	\$ 427,229	\$ 449,605	\$ 337,230
Total Assets	<u>\$ 359,606</u>	<u>\$ 427,229</u>	<u>\$ 449,605</u>	<u>\$ 337,230</u>
Liabilities				
Amounts held for others	\$ 359,606	\$ 427,229	\$ 449,605	\$ 337,230
Total Liabilities	<u>\$ 359,606</u>	<u>\$ 427,229</u>	<u>\$ 449,605</u>	<u>\$ 337,230</u>

See accompanying Independent Auditors' Report.

CITY OF FALLS CHURCH, VIRGINIA
COMBINING STATEMENT OF NET ASSETS
NON-MAJOR COMPONENT UNITS
As of June 30, 2004

	Industrial Development Authority - Governmental Activities	Economic Development Authority - Governmental Activities	Total
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash and cash equivalents	\$ -	\$ 126,109	\$ 126,109
Due from primary government	-	25,439	25,439
Capital assets:			
Non-depreciable:			
Land	-	517,255	517,255
Total non-depreciable	<u>-</u>	<u>517,255</u>	<u>517,255</u>
Total capital assets	<u>-</u>	<u>517,255</u>	<u>517,255</u>
Total Assets	<u>-</u>	<u>668,803</u>	<u>668,803</u>
NET ASSETS			
Invested in capital assets, net of related debt	-	517,255	517,255
Unrestricted	<u>-</u>	<u>151,548</u>	<u>151,548</u>
Total Net Assets	<u>\$ -</u>	<u>\$ 668,803</u>	<u>\$ 668,803</u>

CITY OF FALLS CHURCH, VIRGINIA
COMBINING STATEMENT OF ACTIVITIES
NON-MAJOR COMPONENT UNITS
For the Year Ended June 30, 2004

Functions/Programs	Expenses			Net (Expenses) Revenue and Changes in Net Assets		
	Industrial Development Authority	Economic Development Authority	Total	Industrial Development Authority	Economic Development Authority	Total
Governmental activities:						
Economic development	\$ 126,109	\$ -	\$ 126,109	\$ (126,109)	\$ -	\$ (126,109)
Total Governmental Activities	<u>126,109</u>	<u>-</u>	<u>126,109</u>	<u>(126,109)</u>	<u>-</u>	<u>(126,109)</u>
General Revenues:						
Revenue from use of money and property				1,362	22,839	24,201
Payment from Industrial Development Authority				-	126,109	126,109
Other				-	2,600	2,600
Total General Revenues				<u>1,362</u>	<u>151,548</u>	<u>152,910</u>
Change in net assets				(124,747)	151,548	26,801
Net Assets - Beginning of Year				<u>124,747</u>	<u>517,255</u>	<u>642,002</u>
Net Assets - End of Year				<u>\$ -</u>	<u>\$ 668,803</u>	<u>\$ 668,803</u>

CITY OF FALLS CHURCH, VIRGINIA
COMBINING BALANCE SHEET
NON-MAJOR COMPONENT UNITS
As of June 30, 2004

	Industrial Development Authority	Economic Development Authority	Total Non-Major Component Units
ASSETS			
Cash and cash equivalents	\$ -	\$ 126,109	\$ 126,109
Due from primary government	-	25,439	25,439
	<u>-</u>	<u>25,439</u>	<u>25,439</u>
Total Assets	<u>\$ -</u>	<u>\$ 151,548</u>	<u>\$ 151,548</u>
FUND BALANCES			
Unreserved and undesignated	\$ -	\$ 151,548	\$ 151,548
	<u>-</u>	<u>151,548</u>	<u>151,548</u>
Total Fund Balances	<u>-</u>	<u>151,548</u>	<u>151,548</u>
Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ 151,548</u>	<u>\$ 151,548</u>
Amounts reported for non-major component units in the statement of net assets (Exhibit I) are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.			
Capital assets	-	517,255	517,255
	<u>-</u>	<u>517,255</u>	<u>517,255</u>
Net Assets of Non-Major Component Units	<u>\$ -</u>	<u>668,803</u>	<u>\$ 668,803</u>

CITY OF FALLS CHURCH, VIRGINIA
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NON-MAJOR COMPONENT UNITS
For the Year Ended June 30, 2004

	Industrial Development Authority	Economic Development Authority	Total Non-Major Component Units
REVENUES			
Revenue from use of money and property	\$ 1,362	\$ 22,839	\$ 24,201
Miscellaneous	-	2,600	2,600
Intergovernmental revenue:			
Transfers in from Industrial Development Authority	-	126,109	126,109
Total Revenues	1,362	151,548	152,910
EXPENDITURES			
Current:			
Economic development	126,109	-	126,109
Total Expenditures	126,109	-	126,109
Excess/(deficiency) of revenues over expenditures	(124,747)	151,548	26,801
Net Change in Fund Balances	(124,747)	151,548	26,801
Fund Balances at Beginning of Year	124,747	-	124,747
Fund Balances at End of Year	\$ -	\$ 151,548	\$ 151,548
Net change in fund balances - total governmental funds	\$ (124,747)	\$ 151,548	\$ 26,801
Change in Net Assets of Governmental Activities	\$ (124,747)	\$ 151,548	\$ 26,801



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CITY OF FALLS CHURCH, VIRGINIA
COMPREHENSIVE ANNUAL
FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

STATISTICAL SECTION
(Unaudited)





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TABLE 1

CITY OF FALLS CHURCH, VIRGINIA
Governmental Revenues by Source
Last Ten Fiscal Years

Fiscal Year	General Property Taxes	Other Local Taxes	Permits, Fees, and Licenses	Fines and Forfeitures	Use of Money and Property	Charges for Services	Miscellaneous	Recovered Costs	Intergovern- mental	Total
1995	\$ 14,961,085	\$ 6,751,179	\$ 120,632	\$ 196,842	\$ 966,304	\$ 1,430,714	\$ 398,876	\$ 79,788	\$ 4,621,031	\$ 29,526,451
1996	15,603,897	7,261,985	134,493	265,201	719,742	1,641,859	335,418	54,253	4,834,675	30,851,523
1997	16,235,395	7,660,838	155,785	298,226	589,833	1,864,666	486,115	53,406	5,383,567	32,727,831
1998	16,361,623	7,967,733	195,762	319,712	629,517	1,846,513	4,272,542	62,397	5,327,453	36,983,252
1999	16,779,979	8,955,482	195,237	279,158	867,637	1,911,070	2,496,315	214,301	5,944,556	37,643,735
2000	17,299,289	9,127,990	207,222	267,043	1,054,550	2,084,670	2,639,248	44,456	7,374,611	40,099,079
2001	17,894,364	9,838,262	268,479	303,416	1,367,823	2,014,924	540,559	99,573	7,863,015	40,190,415
2002	21,530,436	9,638,805	311,447	487,510	585,542	2,356,516	1,171,759	46,014	9,172,198	45,300,227
2003	22,502,555	9,568,442	415,000	763,707	323,425	2,857,383	574,804	1,976,842	9,179,090	48,161,248
2004	24,985,137	10,130,055	361,371	996,688	203,327	2,874,628	200,039	2,184,999	9,450,944	51,387,188

Includes all General and Capital Project funds, and Component Unit School Board.

TABLE 2

CITY OF FALLS CHURCH, VIRGINIA
Governmental Expenditures by Function
Last Ten Fiscal Years

Fiscal Year	General government adminis- tration	Judicial adminis- tration	Public safety	Public works	Health and welfare	Education	Parks, recreation and cultural	Community development	Economic Development	Debt service	Total
1995	\$ 2,291,352	\$ 777,602	\$ 4,058,957	\$ 3,306,479	\$ 1,822,740	\$ 12,980,010	\$ 1,914,687	\$ 1,583,784	\$ -	\$ 2,556,734	\$ 31,292,345
1996	2,396,501	798,377	4,334,818	3,221,785	1,894,837	13,803,107	2,056,996	1,456,949	-	2,540,049	32,503,419
1997	2,303,640	1,185,183	4,557,623	3,239,422	1,828,804	14,912,925	2,053,664	1,495,578	-	2,533,462	34,110,301
1998	2,546,780	1,002,479	4,543,158	3,869,002	1,823,457	15,491,386	2,140,724	1,865,022	-	2,689,072	35,971,080
1999	2,703,924	1,001,759	5,767,264	3,728,623	1,775,667	16,237,617	2,251,352	1,480,836	-	2,659,797	37,606,839
2000	2,930,417	900,424	4,735,878	3,615,302	1,778,124	18,437,732	2,290,312	2,064,271	-	2,685,736	39,438,196
2001	4,197,703	873,315	5,179,796	3,088,647	2,754,537	20,723,846	2,559,833	970,075	-	3,023,654	43,371,406
2002	3,709,201	967,955	5,862,306	2,783,998	3,130,689	23,201,898	2,622,749	1,008,178	-	3,228,317	46,515,291
2003	4,786,596	962,887	6,371,972	4,456,901	2,664,254	24,150,001	2,633,689	1,138,518	428,264	3,306,069	50,899,151
2004	5,277,424	1,069,174	6,537,600	4,884,709	2,760,756	32,362,450	2,863,472	1,196,845	284,175	11,721,316	68,957,921

Includes all General, Special Revenue and Capital Project funds, and Component Unit School Board.

TABLE 3

CITY OF FALLS CHURCH, VIRGINIA
Property Tax Levies and Collections
Last Ten Fiscal Years

Fiscal Year	Total tax levy	Current tax collections	Percent of levy collected	Delinquent tax collections	Total tax collections	Percent of total tax collections to tax levy	Outstanding delinquent taxes	Percent of delinquent taxes to tax levy
1995	\$ 14,621,356	\$ 14,466,425	98.94%	\$ 370,264	\$ 14,836,689	101.47%	\$ 682,953	4.67%
1996	15,295,102	15,080,864	98.60%	398,189	15,479,053	101.20%	604,450	3.95%
1997	16,212,191	16,007,357	98.74%	136,810	16,144,167	99.58%	557,308	3.44%
1998	16,240,120	16,119,759	99.26%	129,338	16,249,097	100.06%	506,188	3.12%
1999	16,826,726	16,550,925	98.36%	88,445	16,639,370	98.89%	675,853	4.02%
2000	17,910,201	17,682,220	98.73%	140,804	17,823,024	99.51%	813,404	4.54%
2001	20,636,808	19,214,572	93.11%	84,068	19,298,639	93.52%	699,391	3.39%
2002	23,661,325	22,851,877	96.58%	120,666	22,972,543	97.09%	666,646	2.82%
2003	25,507,581	24,722,528	96.92%	70,960	24,793,488	97.20%	834,234	3.27%
2004	27,699,361	26,556,749	95.87%	257,727	26,814,476	96.81%	1,246,586	4.50%

Collections do not include penalties and interest but do include Commonwealth of Virginia PPTRA reimbursement.

Accelerated collection of real estate taxes began in fiscal 1993.

TABLE 4

CITY OF FALLS CHURCH, VIRGINIA
Assessed Value of Taxable Property
Last Ten Fiscal Years

Fiscal Year	Real Estate	Personal Property	Machinery and Tools	Public Service Corporations		Total
				Real Estate	Personal Property	
1995	\$ 1,061,864,362	\$ 72,288,711	\$ 2,410,300	\$ 16,647,184	\$ 13,748	\$ 1,153,224,305
1996	1,086,323,987	75,812,791	424,272	17,849,132	5,120	1,180,415,302
1997	1,110,325,350	82,294,224	443,463	17,695,018	11,230	1,210,769,285
1998	1,114,984,300	83,708,424	30,348	19,754,568	21,594	1,218,499,234
1999	1,134,148,650	87,758,184	14,313	21,524,498	15,803	1,243,461,448
2000	1,223,996,750	103,552,075	38,546	31,377,248	17,383	1,358,982,002
2001	1,404,758,900	111,659,710	-	29,152,583	81,843	1,545,653,036
2002	1,662,659,040	110,856,311	-	26,276,579	171,835	1,799,963,765
2003	1,820,716,800	123,493,957	-	26,413,009	177,980	1,970,801,746
2004	2,290,167,116	126,681,362	-	30,051,000	128,000	2,447,027,478

Valuations are at estimated 100% market value.

TABLE 5

CITY OF FALLS CHURCH, VIRGINIA
Property Tax Rates
Last Ten Calendar Years

Calendar Year	Real Estate	Personal Property	Machinery and Tools
1995	1.07	4.71	4.71
1996	1.07/1.11	4.71	4.71
1997	1.11	4.71	4.71
1998	1.11	4.71	4.71
1999	1.11	4.71	4.71
2000	1.10	4.71	4.71
2001	1.13	4.71	4.71
2002	1.13	4.71	4.71
2003	1.13	4.71	4.71
2004	1.08	4.71	4.71

Rates are per \$100 of valuation

TABLE 6

CITY OF FALLS CHURCH, VIRGINIA
Ratio of Net General Bonded Debt to
Assessed Value and Net Bonded Debt Per Capita
Last Ten Fiscal Years

Fiscal Year	Population (1)	Assessed Value (2)	Gross Bonded Debt (3)	Less: Debt Service Monies Available	Net Bonded Debt	General Obligation Debt to Assessed Value	Net Bonded Debt per Capita
1995	9,600	\$ 1,153,224,305	\$ 24,592,500	\$ -	\$ 24,592,500	2.13%	\$ 2,562
1996	9,600	1,180,415,302	26,575,000	40,996	26,534,004	2.25%	2,764
1997	9,600	1,201,921,776	25,402,499	17,915	25,384,584	2.11%	2,644
1998	9,600	1,218,499,234	24,069,999	49,492	24,020,507	1.97%	2,502
1999	9,600	1,243,461,448	22,642,499	119,061	22,523,438	1.81%	2,346
2000	9,600	1,358,982,002	30,214,999	18,038	30,196,961	2.22%	3,146
2001	9,600	1,545,618,036	28,825,000	127,280	28,697,720	1.86%	2,989
2002	10,400	1,799,963,765	27,180,000	-	27,180,000	1.51%	2,613
2003	10,600	1,820,716,800	25,495,000	-	25,495,000	1.40%	2,405
2004	10,600	2,320,218,116	47,950,000	-	47,950,000	2.07%	4,524

(1) Bureau of the Census

(2) From Schedule 10

(3) Includes all long-term general obligation bonded debt, Bond Anticipation Notes, and Literary Loans
Excludes revenue bonds, capital leases, and compensated absences

TABLE 7

CITY OF FALLS CHURCH, VIRGINIA
Ratio of Annual Debt Service Expenditures for General Bonded
Debt (1) to Total General Governmental Expenditures
Last Ten Years

Fiscal Year	Principal	Interest	Total Debt Service	Total General Governmental Expenditures (1)	Percent Ratio of Debt Service to General Governmental Expenditures
1995	\$ 1,097,500	\$ 1,459,234	\$ 2,556,734	\$ 31,292,345	8.17%
1996	1,142,500	1,397,549	2,540,049	32,503,419	7.81%
1997	1,250,364	1,328,098	2,578,462	34,110,301	7.56%
1998	1,392,203	1,296,869	2,689,072	35,971,080	7.48%
1999	1,439,146	1,220,651	2,659,797	37,606,839	7.07%
2000	1,466,199	1,219,537	2,685,736	39,049,431	6.88%
2001	1,430,865	1,592,789	3,023,654	43,371,406	6.97%
2002	1,645,000	1,583,317	3,228,317	46,515,291	6.94%
2003	1,685,000	1,399,804	3,084,804	50,899,151	6.06%
2004	10,052,025	1,570,249	11,622,274	68,957,921	16.85%

(1) Includes all General Fund and Component Unit – School Board.

TABLE 8

CITY OF FALLS CHURCH, VIRGINIA
Computation of Legal Debt Margin
At June 30, 2004

Total assessed value of real estate, including public service corporations for calendar year 2004	\$ 2,320,218,116
Legal debt limit percentage	<u>10.00%</u>
Legal debt limit	232,021,812
Amount of debt applicable to limit	<u>47,950,000</u>
Legal debt margin	<u><u>\$ 184,071,812</u></u>

TABLE 9

CITY OF FALLS CHURCH, VIRGINIA
Governmental Fund Balances (1)
Last Ten Years

Fiscal Year	Reserved for:			Unreserved and Designated		Unreserved and Undesignated	Total
	Encumbrances	Inventory	Prepays	Economic Development	Construction		
1995	\$ 495,831	\$ 92,889	\$ -	\$ -	\$ 4,064,533	\$ 7,336,211	\$ 11,989,464
1996	1,993,027	96,476	-	-	3,603,888	6,882,381	12,575,772
1997	1,273,377	126,021	-	-	3,417,261	6,741,213	11,557,872
1998	1,196,131	111,312	-	1,146,639	3,262,673	9,078,051	14,794,806
1999	927,714	113,027	-	2,240,012	913,643	9,364,554	13,558,950
2000	2,290,448	107,210	-	2,380,251	4,027,570	10,531,589	19,337,068
2001	675,262	87,807	-	1,323,296	1,336,082	11,994,460	15,416,907
2002	1,067,662	128,688	-	763,689	940,900	14,854,849	17,755,788
2003	756,577	129,907	65,480	335,425	150,342	17,602,385	19,040,116
2004	21,246,925	129,323	66,158	56,455	4,918,860	13,856,001	40,273,722

(1) Includes all General and Capital Project funds, and Component Unit School Board.

TABLE 10

CITY OF FALLS CHURCH, VIRGINIA
Construction, Property Value, and Bank Deposits
Last Ten Calendar Years

Calendar Year	Construction (1)				Property Value			Bank Deposits
	Commercial		Residential Construction		Commercial	Residential	Total	
	Number of Units	Value	Number of Units	Value				
1995	101	\$ 13,044,356	491	\$ 6,360,110	\$ 272,262,022	\$ 789,602,340	\$ 1,061,864,362	\$ 2,031,043
1996	150	8,828,079	476	5,349,731	263,759,464	822,564,523	1,086,323,987	2,278,801
1997	106	9,066,796	379	9,799,244	278,913,728	831,411,622	1,110,325,350	3,725,263
1998	129	7,820,984	431	8,273,068	282,666,409	829,317,891	1,111,984,300	5,297,638
1999	64	1,224,919	184	4,595,236	292,156,669	841,991,891	1,134,148,560	4,830,142
2000	102	2,967,795	186	3,392,751	323,379,941	900,616,809	1,223,996,750	1,015,618
2001	76	12,530,270	187	2,586,633	355,114,202	1,049,609,698	1,404,723,900	707,420
2002	217	14,258,902	251	8,913,817	390,143,523	1,272,872,347	1,663,015,870	1,335,935
2003	186	2,955,032	263	11,431,439	436,972,032	1,383,744,768	1,820,716,800	2,068,602
2004	42	25,012,080	171	12,322,297	569,289,000	1,750,929,116	2,320,218,116	1,720,379

(1) From the City of Falls Church Department of Environmental Services.

TABLE 11

CITY OF FALLS CHURCH, VIRGINIA
Demographic Statistics
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Population</u>	<u>Per Capita Income (1)</u>	<u>School Enrollment</u>	<u>Unemployment Rate (2)</u>
1995	9,600	\$ 37,201	1,356	4.3
1996	9,600	38,482	1,464	4.1
1997	9,600	40,330	1,480	3.6
1998	9,600	43,193	1,451	2.2
1999	9,600	47,306	1,541	1.3
2000	9,600	50,027	1,675	1.1
2001	10,400	51,463	1,721	2.6
2002	10,600	52,199	1,749	2.9
2003 (projection)	10,600	53,243	1,817	2.5
2004 (projection)	10,600	54,308	1,846	2.9

1 - Source: U.S. Department of Commerce, Bureau of Economic Analysis. Per Capita Rate for Fairfax, Fairfax City and Falls Church

2 - Source: Virginia Employment Commission

CITY OF FALLS CHURCH, VIRGINIA
Ten Largest Taxpayers
As of January 1, 2004

No.	Owner	Nature of Business	Assessment	Tax	% of Levy
1	Falls Church Country Club	Apartment	\$ 48,198,900	\$ 520,548	2.0773%
2	Waterford Falls Church, LLC	Condominium	43,110,100	465,589	1.8580%
3	Capital Properties, Inc. & Eden Center, Inc	Shopping Center	40,528,000	437,702	1.7467%
4	West Falls Parcel, Inc. & Federal Realty Investment Trust	Shopping Center	29,316,200	316,615	1.2635%
5	B Franklin Kahn, et al	Apartment	19,242,300	207,817	0.8293%
6	Kaiser Foundation Health Plan, Inc.	Medical Office	19,496,600	210,563	0.8403%
7	Aimco Merrill House, LLC	Apartment	15,183,900	163,986	0.6544%
8	James E. Koons	Auto Sales	13,934,300	150,490	0.6006%
9	Noland Co. Inc.	Plumbing Supply	12,571,600	135,773	0.5418%
10	George Mason Square, LLC	Office	10,931,200	118,057	0.4711%